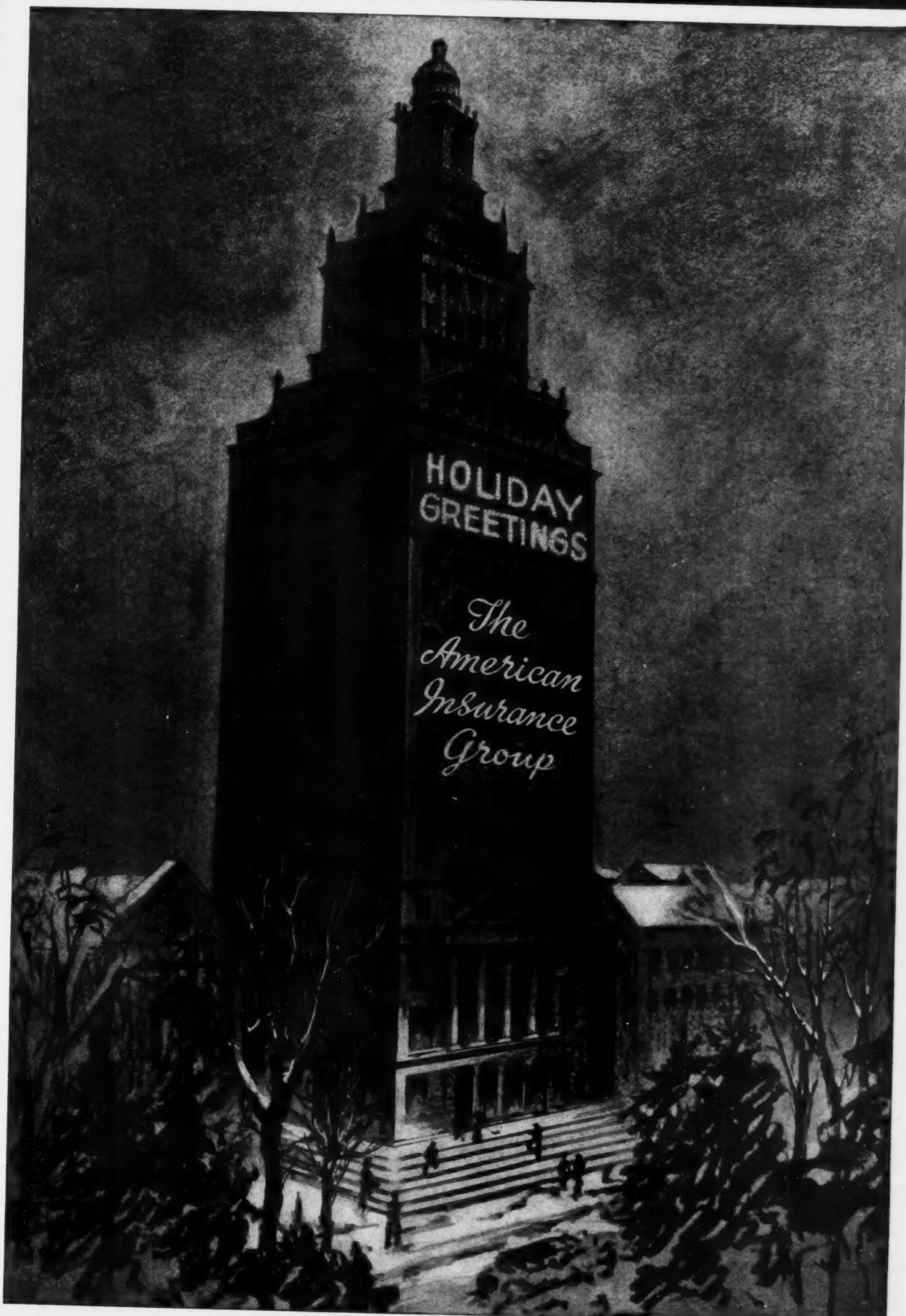
# The NATIONAL UNDERWRITER




THURSDAY, DECEMBER 29, 1938

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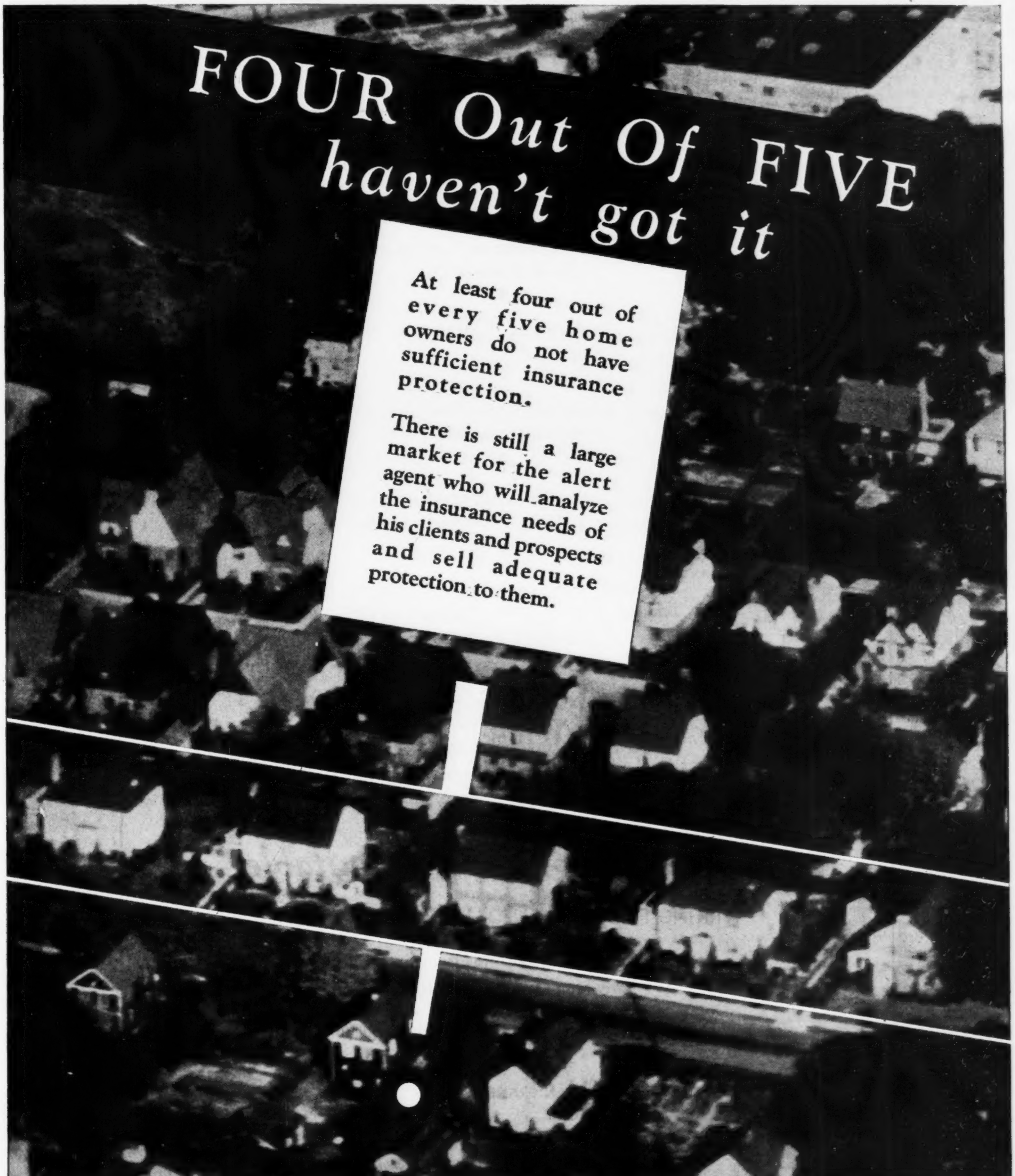


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NEW YORK CHICAGO SAN FRANCISCO ATLANTA DALLAS MONTREAL

WEEKLY NEWSPAPER OF INSURANCE

# The NATIONAL UNDERWRITER

Forty-second Year—No. 52 CHICAGO, CINCINNATI, NEW YORK AND SAN FRANCISCO, THURSDAY, DECEMBER 29, 1938 $4.00 Per Year, 20 Cents a Copy

## Agreement Sought for Automobile Finance Business

### Companies Expect Some Solution Can Be Worked Out by Spring

NEW YORK—It seems likely that the leading companies writing automobile finance business will attempt to get together during the next three months and try to agree on some program that can be recommended to the special committee of the National Association of Insurance Commissioners dealing with this problem. The executives themselves realize that something should and in fact must be done.

The crux of the whole situation is to get a reasonable acquisition cost formula. In almost all states now, the insurance commissioners have ruled that each purchaser of an automobile is entitled to a certificate giving him full information as to the premium paid, the coverages, amount and the provisions of the master contract. Therefore, the big problem now to solve is that of commissions paid.

**Want to Participate**

The finance companies themselves for the most part insist on participating in the commission paid for insurance. Most financing institutions contend that they are entitled to a percentage. The local agents are determined to force the business into their own hands so that they can secure most of the commission paid. It is estimated that the premiums paid for insurance on finance business run to $80,000,000 a year. The finance companies declare with considerable emphasis that they have created this business themselves and the agents had no part. If it had not been for their efforts, they contend, this immense volume would not have been developed. They say that the local agents are killing the goose that laid the golden egg for their companies because were it not for the contracts of the finance companies requiring insurance very few people purchasing automobiles on the deferred payment plan would buy insurance covering their own interest.

**Look for Reasonable View**

Executives hope that the local agents will take a reasonable attitude in the effort to solve this question. If pressure is brought to bear so that the local agents will insist on having insurance on financed cars tossed in their direction the result will be that the finance companies will organize their own insurance companies. General Exchange is an outstanding example of what can be done with a specialty company organized by a big automobile group. General Exchange does not operate through agents. Recently an insurance company has been organized in New Jersey, the Interstate, to write finance business. Another com-

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## TRENDS AND VIEWS

**Reasons for Low Loss Ratio**
**New England Hurricane Loss Extensive**
**President Plessner's Broad Background**

By C. M. CARTWRIGHT

NEW YORK — One of the leading executives in New York City remarked the other day that he felt quite sure that the continued low loss ratio in fire business for the last few years is due in great part to the fact that the government has been helping householders as well as business enterprises financially. In going over his records, he finds that in 1932 his company's loss ratio on dwellings was the highest that it had been. The financial crash had come. The economic storm had arrived. Moral hazard had developed. People caught between the upper and nether millstones saw the equity in their homes vanishing and a fire seemed to be the most profitable way out.

Then came the government with the HOLC, FHA and other loaning institutions. Householders thought they could get more favorable terms in the way of loans from the government than they could from private sources. Therefore they were able to save the day and while many foreclosures had to be made by the government bureaus yet undoubtedly this financing did do much to help householders in saving their homes. Therefore, they were not compelled to resort to arson and the loss ratio on dwellings went down. To an extent the same experience may have manifested itself in commercial buildings if loans could be secured from the government.

Another factor especially in the large cities that has tended to make companies safer from fire is the demolition or improvement of antiquated properties that were fire breeders. If a fire started it would be very difficult to control it in these structures. Many of these buildings have been cleared out for parking stations. These make another break against fire. In some of the cities these rangy structures have constituted direct avenues for fire. In these large cities in a number of localities antiquated buildings are being torn down to save taxes. In some cases modern buildings have been erected and in others they are either left vacant or the ground is used as parking lots.

* * *

**TORNADO CATASTROPHE**

Company executives have been studying the tornado insurance situation following the hurricane that struck New England, realizing that that constituted a catastrophe hazard and if tornado insurance had been carried to any great extent companies would have lost millions of dollars. In fact authorities that have studied the figures carefully make the statement that insurance companies would have been called upon to pay some $225,000,000 in claims if the same percentage of tornado insurance as is found in central western states had been carried. As it was New England carried but little tornado insurance and while the claims have been numerous because various business enterprises did carry windstorm insurance and automobiles with comprehensive cover were injured or destroyed yet as a general rule the loss fell on the owners themselves.

However, the wide expanse and length of this hurricane called attention to the fact that no company can afford to expose itself to another possible loss of a like nature. Usually tornadoes travel along a narrow path and while they are destructive and sometimes cause losses running into the millions the area is not so wide. The New England hurricane seemed to be unprecedented in many ways. Naturally following that catastrophe several agents have been busy in selling the extended coverage policy or even adding tornado insurance to the regular fire policy. Companies therefore are studying their tornado liability and in some instances have rearranged their excess insurance arrangements. Usually a company will carry a net loss of $150,000 and the excess carrier will then take up the burden and run into $250,000. After that the primary company will again assume the liability.

* * *

**PRESIDENT PLESSNER**

The Northern of New York organization is greatly pleased with the election of Theodore Plessner as president to succeed the late H. H. Clutia. He had been vice-president and treasurer since 1929 and was the logical successor to the late president. Mr. Plessner knows the Northern from stem to gudgeon. He has been with it since it was organized and even "before it started" as he puts it. He became associated with Burke & Brown in 1895, they being managers of the old New York & Boston Lloyds. Later this was reorganized as the Northern. In those days there were a number of Lloyds in New York City. Almost all of them were converted into stock companies. Therefore, Mr. Plessner has known the Northern and all its activities as well as its organization from its inception. The people associated with the company at the home office, in its general agencies and in the field have great confidence in him. The Northern is an independent company that is held in high regard. It marches along without any noise, fuss or feathers. It travels a consistent course. It is never antagonistic or highly competitive. Its agents are fond of it and loyal to it. Therefore the Northern people are glad to see one of their own reach the top of the heap. Mr. Plessner intends as time goes on and as business demands permit to make some trips to important centers and visit the local agents.

* * *

**ALWAYS COME TO GRIEF**

Some of the companies that took on some automobile finance accounts and have had an unfavorable experience are getting rid of them. A company is tempted to assume accounts of this kind but they may get badly scorched. Furthermore, companies that are wont from time to time to get a superiority complex or an idea of grandeur, taking on large premium accounts of various kinds without careful underwriting and possibly with a cut rate and liberal provisions discover the ultimate is always the same. There is always some Moses who

(CONTINUED ON PAGE 10)

## N. Y. Code Sponsors May Have to Accept a Partial Victory

### Reported Advised to Put Most Desired Sections into Separate Bills

NEW YORK—So formidable is the opposition to the New York department's proposed insurance law revision that its sponsors are reported to have been advised to prepare a few bills embodying their most desired measures in case the code as a unit should fail of passage. The New York legislature begins its 1939 session next week. Though the governor is a Democrat, the Republicans are in control of the legislature and the code is certain to have a difficult time, if not a disastrous one.

One extremely well informed individual, in a position to know the department and legislative side as well as the companies', feels that the odds are about 2 to 1 against the code being passed at the approaching legislative session.

**Trying for Final Draft**

The department's committee on insurance law revision, headed by Prof. E. W. Patterson of Columbia University, has written and rewritten its drafts and is striving valiantly to wind up the loose ends and turn the code over to the joint legislative committee on insurance law revision, which is headed by Assemblyman R. Foster Piper.

However, despite compromises made by the revision's drafters, the document is still unsatisfactory to the companies on many points. The department feels that a thoroughgoing overhauling of the old law is desirable to clear up ambiguities and put into statutory form points which the law does not cover and which are now handled by departmental edict.

**Not What Drafters Write**

While the department feels that legal complexities would be diminished by having the law set forth in clearer language, the companies are acutely aware that any law is not what its drafters write or what the legislature enacts, but what the courts decide that the legislators intended the law to mean. The companies' distrust of the law revision as a means of clarifying the existing insurance law is due to a well founded fear of how the courts might interpret the new law rather than to uncertainty as to the abilities of Professor Patterson and his colleagues to draw up a well written and apparently crystal-clear document. Courts have gone haywire before and can go haywire again is the feeling of the companies.

There are, of course, sections of the proposed revision which the companies do not like in substance, entirely aside from what the courts might do. In gen-

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# Changed Fire Form in Illinois Is Due on Jan. 1

## Anticipate Little Difficulty in Switching to New N. Y. Standard

By JAMES C. O'CONNOR

The new New York standard policy becomes the only fire insurance contract permitted by law in Illinois Jan. 1. Companies which had used other forms prior to the adoption of the Illinois insurance code July 1, 1937, have had 18 months in which to use up old supplies and make the change and the vast majority of agents have received their new supplies and in many cases have been issuing the new form for some time. No particular policy form had been previously required, the old New York standard being the most common. There undoubtedly will be a certain amount of scurrying on the part of field men to pick up old supplies from agents whom they were unable to reach previously, but in general very little confusion is anticipated.

In the light of experience in other states following mandatory changes of policy forms, no trouble is expected in the occasional and inevitable cases where an agent may carelessly issue a contract under the old form after the deadline. Should any question arise in a loss adjustment, it is expected that the companies will agree to consider the terms of the new form as controlling. In the past, no state has made trouble for a company where the issuance of an outlawed form was due solely to inadvertence on the part of the agent and not to deliberate noncompliance and there is no reason to believe that the Illinois insurance department will take a different attitude.

### Question of Concurrency

Some observers have wondered whether there may be any questions of nonconcurrency in case of risks having high values and carrying a large number of policies. If, as frequently happens, the policies do not expire on the same date, there might be a situation in which some of the policies were on the old form and others on the new form. This might also exist where all expirations were simultaneous, due to some companies having supplied the agent or agents with new forms before others had done so. Here, it is also expected that all companies will agree to settle the loss on the basis of the new contract. It is pointed out that enforcement of some of the more rigorous provisions of the old form is attempted only where moral hazard is suspected. Where several companies are on the risk, this is always done by concerted agreement, since no one company would jeopardize its agency relations by denying liability while other companies were willing to pay.

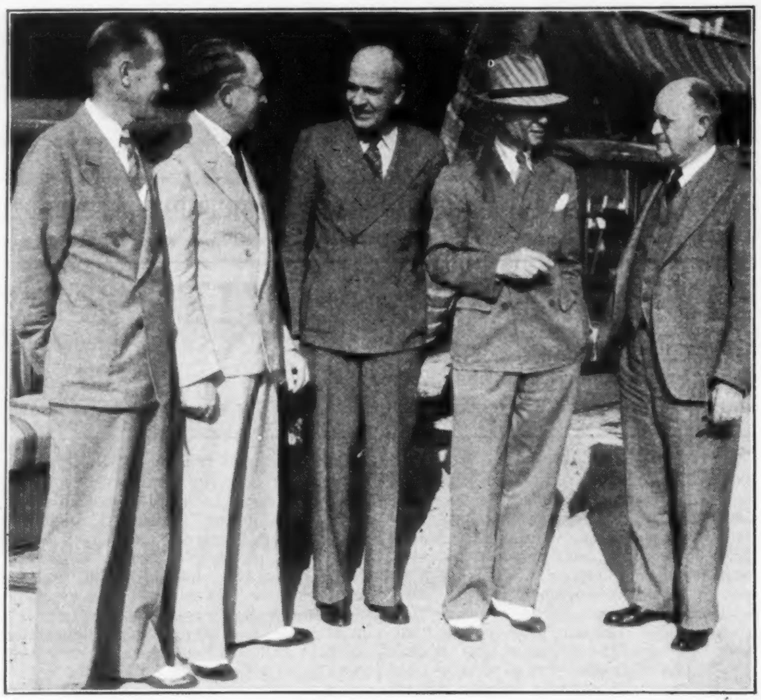
### Old "Voids," New "Suspends"

The principal chance for possible nonconcurrency would be under the provisions relating to increase of hazard, operation of manufacturing risks beyond 10 o'clock, alterations and repairs and keeping of various explosives. The old form is completely voided under such conditions, whereas the new form is simply suspended during the existence of the conditions. The provisions voiding the policy in the event the interest of the assured is not unconditional and sole ownership, building on ground not owned by the assured in fee simple, foreclosure proceedings started, assignment before a loss or change in interest title or possession of the property are the same in both forms.

The Illinois code gives fire insurance companies the option of using the appraisal clause of the old New York form, but so far no company is known to have taken advantage of this permission. The National Board recommended use of the new New York form verbatim, for the sake of uniformity, and this recommendation appears to have been followed universally. The appraisal clause of the new New York form requires a written demand on the part of either party, states that the appraisal must be itemized and permits a court of record to select an umpire if the appraisers fail for 15 days to agree upon one. There appears to be no authority under the old form to compel either party to proceed with an appraisal.

The addition of Illinois to the fold means that 15 states and the District of Columbia are now using the new New York policy, or statutory forms modeled upon it. The other states where the policy or a statutory variation of it is required are Arizona, New Mexico, New York, Vermont, Virginia, West Virginia, Wyoming, Michigan, North Carolina, Pennsylvania, South Carolina and Wisconsin. No standard policy is prescribed in Colorado and Maryland, but the new New York form is voluntarily used by the majority of companies in these two states, because adjoining states require it and hence the companies felt it more convenient to use the same form throughout a single field jurisdiction. In other states which require no standard policy the old New York form is commonly used.

# Map Plans for Rally in Hollywood, Fla.



This group of Floridans was snapped recently at their conference in Hollywood, Fla., to discuss the local arrangements for the mid-year meeting of the National Association of Insurance Agents which will be held at the Hollywood Beach hotel there April 3-6. Reading from left to right: Clyde W. Fawcett, Hollywood, secretary Broward County Insurors Association; Fred E. Willis, Hollywood local agent; A. C. Eifler, secretary Florida Insurance Agents Association; W. B. Buchanan, Miami, president Greater Miami Insurance Board; Roland Hardy, Pompano, president Pompano Rotary Club.

# THIS WEEK IN INSURANCE



# Palmer's Famous Cost Questionnaires Are Now Released

## New Illinois Department Inquiries Cover All Lines Searchingly

Following his announced intention of going into the acquisition cost situation thoroughly and on all lines of insurance, Insurance Director Palmer of Illinois has sent searching questionnaires, embracing every line of insurance except life, to all companies. There are three questionnaires, one for fire and allied lines, one for inland marine and one for casualty and surety. It is probably the most comprehensive survey of acquisition costs ever undertaken.

In his prelude Mr. Palmer states that practically all company groups write every class of business except life and that it is impossible to attempt to regulate one class without giving equal consideration to all. This is along the lines expounded by Mr. Palmer at the recent convention of the Illinois Association of Insurance Agents. He stated there, and he repeats in his questionnaires, that company expenses in many cases comprise the dominating factors in the makeup of rates and that the Illinois department needs information on the cost of acquiring business in order to determine whether rates are reasonable, as required by the Illinois code.

### Requires Two Years Figures

Exactly what use Mr. Palmer will make of this information is not indicated, but observers have little doubt that he will seek to bring about a reduction in acquisition costs. Although the Illinois code gives the insurance department no specific authority over commissions and allied items, he has taken the position that, since rates are made up of losses and expenses, he can question expenses as affecting the reasonableness of rates. He has also stated that he will give all insurance interests every opportunity to cooperate with him, but is prepared to ask the legislature for authority to regulate commissions and other expenses if he does not receive cooperation.

All three questionnaires call for complete information on business during 1937 and 1938. The 1937 report must be in by Feb. 1 and the 1938 report by March 1.

### Fire Report Detailed

The information regarding fire insurance and allied lines must be submitted on a tabulated blank form furnished by the department. It calls for separate reports on fire, windstorm and extended coverage in Chicago and Cook county and outside Cook county and miscellaneous coverages in these two localities. Under the fire, windstorm and extended coverages report, Mr. Palmer asks for premiums and commissions on ordinary, intermediate and preferred business, contingent commissions and allowances. Under the miscellaneous coverages section, premiums and commissions are requested on sprinkler leakage, automobile, excluding liability and property damage, riot and civil commotion and inland marine, with contingent commissions, and allowances.

For Chicago and Cook county separate reports under each classification are called for on policies written in company owned offices for Cook county suburban agents, brokers housed by the company, other brokers, home office or company offices, other than Chicago

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# Act Done Stealthily Not Riot, Illinois High Court Holds

### Reverses Famous Decision Against Insurer in Creosote Smearing

Reversing the decision of the appellate court in the well known case of Walter vs. Northern of New York, the supreme court of Illinois held that the riot section of the old supplemental contract did not cover malicious damage to the insured property done at night and without any disturbance, even though several people had obviously taken part in the work. Because of the similarity in the wording of the insuring clauses, it is believed that this decision applies with equal force to the riot and civil commotion policy and to the new extended coverage endorsement.

The incident out of which the suit grew occurred during the night of Jan. 3, 1936, when cresote was smeared on the walls, ceiling, windows and floors of a building which was being enlarged and repaired. The painter in charge of the house had locked all doors and windows, except a window which opened onto the roof of a rear porch and which could not be closed completely. The next morning the painter found the windows and doors locked and a ladder leaning against the roof near the open window. Finger prints and foot tracks of several men were found.

**Neighbor Not Disturbed**

The occupant of the next house testified that he had been home all night and that he had heard no unusual noise or disturbance and saw no one around the premises. The circuit court decided in favor of the insurance company, but the appellate court reversed the judgment and awarded the assured $1,605, holding that the physical exertion necessary to accomplish the unlawful act constituted sufficient "force and violence" to make it a "riot" within the meaning of the Illinois riot statute.

**Must Be Open and Defiant**

The opinion of the supreme court by Justice Stone seems to establish, at least in Illinois, that an act done stealthily and with an attempt to avoid detection is not a "riot" within the coverage of an insurance policy. There was no dissent, although Justices Farthing and Gunn concurred in result, but not in reasoning. Since much of the opinion is concerned with interpreting the common law definition of riot in its relationship to riot statutes, with considerable quotation from decisions of other states, it is expected that this case will have weight in other jurisdictions.

Justice Stone devoted a good deal of his opinion to the legal technique of construing a statute. The Illinois riot statute provides "if two or more persons actually do an unlawful act, with force or violence, against the person or property of another, with or without a common cause of quarrel, or even do a lawful act in an unlawful or tumultuous manner, the persons so offending shall be deemed guilty of a riot."

**Force and Violence**

In answer to the claim of the assured that "force or violence" accompanying an unlawful act meant only the physical force necessary to accomplish the act, Justice Stone pointed out that at common law an act had to be done in a violent and tumultuous manner in order to constitute a "riot," and that a statute

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## North British Reaches 130th Anniversary in 1939

C. F. SHALLCROSS

North British & Mercantile in the year 1939 celebrates the 130th year of its founding. In 1809 when it was organized, Europe was in the midst of a depression caused by the Napoleonic war. In 1866 when it entered the United States, this country was emerging from the civil war.

The institution was organized in Edinburgh, Scotland, as North British. In 1862 it agreed to a union with Mercantile Fire and the corporate title was changed to North British & Mercantile.

The United States branch was first located at 74 Wall street with Ezra White as manager. During its first 17 months in this country premiums had amounted to $175,000, which was considered a most satisfactory beginning.

C. F. Shallcross, the present U. S. manager, has served in that position since 1919. He is an astute underwriter and a most capable executive. He has been identified with many movements for the betterment of the business and has devoted himself to organization committee work assiduously.

North British was involved in the Chicago fire of 1871 to the extent of $2,330,000. Claims were settled promptly and the London board subscribed $5,000 for sufferers.

A year later North British was involved for $742,000 in the Boston fire and in 1904 it paid $857,000 in Baltimore. In the San Francisco disaster North British paid about $4,000,000, was placed on the local roll of honor and subscribed liberally for relief of sufferers.

This is one of the great insurance institutions of the world.

## G. V. Ogden, 83, Veteran Marine Loss Man, Is Dead

NEW YORK—G. V. Ogden, member of Chubb & Son of New York City, died Dec. 26 at his home, in New York City. He was 83 years old. Mr. Ogden was graduated from Harvard in 1877.

Mr. Ogden began his insurance career with Orient Mutual, of which his father was vice-president. When that company ceased writing business he and his father went into business as brokers and adjusters. He joined Chubb & Son in 1888. In 1901 he became a member of the firm. As an authority on marine insurance adjustments he was widely consulted. During the war Mr. Ogden was a member of the joint advisory committee on just compensation formed in the spring of 1918 to determine how much the government should pay those whose vessels had been requisitioned.

**E. S. Brown**, secretary Mutual Fire & Storm of Texas, died of a heart attack at McKinney, Tex. He formerly was city secretary there and county tax collector.

# Work of Resourceful Examiner

### Some Interesting Activities of a Thinking Young Underwriter in a New York Office

NEW YORK—Since the McKesson & Robbins drug concern expose, insurance men have been interested in the letter that was sent to the New York "Journal of Commerce" by George E. Melsha, examiner in the western department of the New York Underwriters' head office. He called attention to the fact that, in spite of the supposed large inventories which showed up in the financial statements, the insurance policies that were said to cover this merchandise were not checked and, in fact, there was a sad lack of insurance in connection with the values. He took the position that if the accountants had checked the insurance carried by the concern, the fraud perpetrated could not have occurred. He further claimed that accountants should in their audits carefully scrutinize the insurance coverage both as to quality and quantity.

**Attended Gimbel Meeting**

This is not the first time that Mr. Melsha has appeared in print. Insurance men will recall that some time ago as a stockholder of Gimbel Brothers department store he appeared at their annual meeting and in going over the financial statement asserted that as a stockholder he desired to protest against the participating insurance that the firm carried, declaring that it had no justification in having insurance of this kind where there is a contingent liability.

At stockholders' meetings of large concerns there is often a heckler who arises to complain of large salaries paid or he calls the stockholders' attention to something else in the management to which he objects. Usually the heckler is suppressed as soon as possible. When Mr. Melsha spoke at the Gimbel's stockholders' meeting he realized that he would be considered a heckler and a trouble maker. However, as he developed his subject those present who were particularly identified with the management, as well as others, listened attentively to his criticism. He spoke with acute intelligence and the stockholders were impressed with the fact that he was well informed as to insurance and deserved attention. He took the position that where a large concern has a number of stockholders it should not involve itself in any contingent liability like insurance. As a result of Mr. Melsha's criticism it is stated that Gimbel's has considerably reduced its participating insurance. In fact, it led to an overhauling of its insurance program.

**Interested in the Campaign**

Mr. Melsha was interested in the quiet but effective campaign the New York Underwriters management had been carrying on for two years to acquaint its agents with the value of stock insurance. It made no particular noise as to what it was doing. Mr. Melsha is a student and he immediately began to analyze the points that were made by his company. One of the interesting features regarding his appearance at Gimbel's was the feeling of some of the management that primarily he was not interested in the profit making system. He went to the meeting and made his talk without the knowledge of the management. Undoubtedly he had absorbed considerable information from H. C. Klein, assistant secretary in charge of the special risk department. He had the opportunity of reading Mr. Klein's correspondence and became impressed with the intelligence with which he handled any subject that came before him.

Mr. Melsha has been connected with the New York Underwriters since he was a lad. He took the Insurance Institute fire insurance course and also a course in accountancy evenings at the New York University. After he had taken the accountancy course he concluded that it might be well for him to branch out into that line and leave insurance. He consulted some of his superiors, who induced him to remain in insurance work.

He is a great student of the business. He is interested in all that goes on about him. He was sent into the Pennsylvania field as special agent and traveled for some time and then was recalled to the head office as an underwriter.

**Interested in Accounting**

As a student of accounting he read the McKesson & Robbins stories in the daily papers and was impressed with the fact that in the audit the insurance was not checked and if it had been the revelation would have come to light long before or perhaps the ugly mess would have been avoided entirely. Mr. Melsha takes the position that when an audit is made by an accountant it should be his duty to check over the insurance in connection with the values listed and also the character of the insurance should be studied.

Two accountants replied to Mr. Melsha's letter in the New York "Journal of Commerce" and one point brought to the front was particularly impressive. In one of the letters the writer said: "I know that reputable accountants already perform this function when they are not prohibited from doing so by the terms of their employment, by directors and officers."

**Why Any Prohibition?**

Mr. Melsha asks why there should be any prohbition imposed on an accountant for checking the insurance. Why should any reputable concern have a rule of this character? If it has such, then there are very strong grounds for suspicion that all is not well.

If the terms of employment of auditors are hedged about with certain restrictions, then Mr. Melsha takes the position that the audit is not as revealing as it should be. He states that the stockholders or others primarily interested are entitled to full information. If a checkup of the insurance is an added protection to those concerned, then it should be done.

In his letter Mr. Melsha pointed out that some concerns include in their financial statements include in their assets "prepaid insurance." He questions the wisdom of including that as an asset where there is any contingent liability attached to it. It may become a liability rather than an asset, he asserts.

## M. R. Morgan Slated for Va. Post

RICHMOND, VA.—M. R. Morgan of Eagle Rock, a state representative, who has served for several terms as chairman of the house committee on insurance and banking, has been picked to succeed M. E. Bristow as commissioner of banking, according to reports. Mr. Morgan is a local agent. Mr. Bristow formerly was commissioner of banking and insurance with George A. Bowles, his deputy, in charge of the insurance department, but the two offices were divorced from each other several years ago.

**Western Assurance** of Canada declared the regular semi-annual dividend of 6 percent on preferred shares.

**J. G. Ogilvie**, 67, for 40 years identified with the insurance business in Columbia, Tenn., died after an illness of six weeks.

**Ernest S. Olmsted** will retire Jan. 3 as Polk county auditor and reenter the insurance field. After vacation he will resume association with his son George Olmsted in Olmsted, Inc., of Des Moines.

**F. F. Ludolph**, secretary of the San Antonio, Tex., Exchange, was called to Shreveport by the death of his brother-in-law, Meritt Parsons.

# NEWS OF FIELD MEN

## D. D. Hobbs Indiana State Agent for Globe & Rutgers

NEW YORK—D. D. Hobbs of Indianapolis, special agent for Great American in Indiana for a number of years, will join Globe & Rutgers and American Home as Indiana state agent. He had a local agency at Carmel, Ind.

### Van Camp Sun State Agent in S. D.

C. S. Weller has resigned as South Dakota state agent for Sun, Sun Underwriters and Patriotic because of other business interests. He is succeeded by W. N. Van Camp of Pierre, who continues as well as state agent for London Assurance, Manhattan F. & M. and National American Fire.

### L. P. Allaire to Indiana Field

Louis P. Allaire, at present staff engineer at the western department of Fireman's Fund in Chicago, has been appointed special agent in Indiana. He will share the headquarters of pecial Agent E. C. Bardwell in the 130 East Washington street building.

Mr. Allaire is a graduate of the fire protection engineering course of Armour Institute, class of 1927, and subsequently spent nine years with the Iowa Insurance Service Bureau in Cedar Rapids. He joined Fireman's Fund two years ago.

### Ryan to Speak to Blue Goose

MINNEAPOLIS—Harry Ryan, Duluth, will speak to the Minnesota Blue Goose here Jan. 16. Thomas Linnell is in charge of the program.

### Holiday with Fireman's Fund

J. H. Holiday is appointed Fireman's Fund special agent in western Pennsylvania assisting Carlton Timberman. He has been connected with the Middle Department Rating Association. His headquarters are at 308 Fourth avenue, Pittsburgh.

### Howard Talks on U. & O.

BOSTON—The Bay State Club heard a talk on use and occupancy insurance by F. G. Howard, assistant secretary Northern Assurance. A nominating committee was named composed of C. E. Hurst, Phoenix; M. F. Ramsey, America Fore, and L. G. Fitzherbert, Home.

### Ohio Underwriters to Meet

The Ohio Fire Underwriters Association will meet Feb. 7 in Cleveland. On the previous evening Ohio Blue Goose will hold a business meeting, initiation and stag party.

### L. T. O'Keefe Enters Field

Lawrence T. O'Keefe has been appointed special agent of Northwestern Fire & Marine and Twin City Fire in Missouri and Oklahoma, to succeed C. E. Ulery, who resigned. Mr. O'Keefe has been associated with these companies for about 12 years, in the underwriting department. His headquarters will be at 330 Mayo building, Tulsa.

### Nordell Succeeds Danziger

Western Manager F. M. Gund of Crum & Forster announces the appointment of Walter Nordell, Sioux Falls, S. D., to replace A. J. Danziger, Iowa special agent, who is being transferred to Ohio.

Mr. Nordell has an excellent insurance background. He was originally employed by Northwestern Fire & Marine while attending high school and the University of Minnesota. He was also employed by Hanover and Marsh & McLennan's Chicago office while completing his studies in the fire protection engineering course of Armour Institute. Upon graduating from Armour he was employed by the Fire Underwriters Inspection Bureau for the past four years, the last year of which he has been assistant manager at Sioux Falls.

He will move to Des Moines shortly after the first of the year and work under the direction of W. H. Faulkner, state agent, and office in the Insurance Exchange building, Des Moines.

A farewell dinner will be held in Des Moines Jan. 13 for Mr. Danziger. Homer Templeton, Crum & Forster, is chairman of the committee in charge. John R. Hoff will be toastmaster.

### Honor Banks, Royal Veteran

The weekly luncheon of the Oregon Blue Goose honored James H. Banks, special agent in Oregon of Royal-Liverpool, who is retiring after 31 years' service in various fields in the Coast territory. The meeting was a joint arrangement with the Special Agents Association. Mr. Banks was presented with a combination desk set.

### Pitot to New Orleans

Henry Pitot, special agent at Montgomery, Ala., for the Liverpool & London & Glove group, is being transferred to New Orleans. His successor has not been announced, but reportedly will go from the New York office.

### E. T. Hancock Earns Field Post

The Carolina announces the appointment of Earl T. Hancock for North Carolina with headquarters in the home office at Wilmington. Mr. Hancock has had training in the New York office of the company.

### A. J. Knaak 36 Year Man

A. J. Knaak, state agent of Connecticut Fire in Detroit has completed 36 years with the Phoenix of Hartford group. Starting in the mailing room of the old western department in Chicago under J. J. McDonald, manager, Mr. Knaak went through the various office departments, and in 1910 went in the field, traveling North and South Dakota, Manitoba and Saskatchewan. In 1914 he confined his activities to the two Dakotas for the Connecticut, and in 1916 took over the supervision of South Dakota for Phoenix of Hartford and planted Equitable F. & M. In 1919 he was transferred to Michigan in charge of the state for Connecticut Fire and now makes his headquarters in Detroit, supervising Detroit and the lower peninsula of Michigan for Connecticut Fire, Minneapolis F. & M. and Central States Fire.

### Assign Kent Macy to Indiana

America Fore has appointed Kent L. Macy to succeed Robert N. Wilson as special agent for Fidelity-Phenix and First American, assisting State Agent Roy P. Elder in Indiana, with headquarters in the Chamber of Commerce building, Indianapolis.

Mr. Macy is a graduate of the Armour Institute of Technology fire protection engineering course and has been attached to the engineering department of America Fore at the Western Department for two years, previous to which time he was with the Missouri Inspection Bureau at Kansas City.

### Heath Named Secretary

DENVER — Preston Heath of the National of Hartford was named secretary-treasurer Direct Reporting Fieldmen's Association at the monthly meeting. He will complete the unexpired term of Chester Long, for several years with the Glens Falls here, who leaves Jan. 1 for Phoenix, Ariz. The new U. & O. form expected to be put in effect here shortly was discussed. Membership was almost unanimously in favor of it, finding many advantages over the old form.

### Great American Southern Changes

Great American announces that Special Agent J. L. Dorris, who has been traveling Alabama, is transferred to Tennessee. W. W. Branch, inland marine special agent for the last two years, is made special agent in Alabama with headquarters in the Jackson building, Birmingham. He formerly traveled in that state.

The **Sunflower (Wichita, Kan.) Blue Goose** is training hard for the bowling tournament with the Kansas pond team scheduled for Topeka in January. Tryouts were held to establish proper handicaps. About 50 puddle members are anticipated for the annual New Year's stag party Dec. 31 at noon.

## May Seek to Simplify Ohio Insurance Statutes

COLUMBUS, O.—It is understood an effort may be made in the session of the Ohio general assembly which opens next week to simplify the insurance laws. Many are obsolete and serve only to confuse rather than promote observance and enforcement. It is expected a large number of bills dealing with insurance will be introduced.

C. H. Jones of Jackson, O., former member Ohio house and former assistant attorney-general, was named director of commerce by Governor-elect Bricker. The insurance division comes under his jurisdiction.

The new governor and director of finance are at work on the state budget, and there is much interest in the appropriation to be set for the insurance department.

### FCAB Sends O'Rourke to Helena

John A. O'Rourke has been appointed manager of the new office of Fire Companies Adjustment Bureau in the Power building, Helena, Mont. He has been with the bureau 10 years, specializing in automobile, casualty and inland marine. He will work under the direct supervision of Manager C. C. Oakes of Butte, Mont., who will personally handle major fire adjustments.

### A. L. Merritt Is in San Francisco

A. L. Merritt of New York, U. S. manager Pearl Assurance, has gone to San Francisco to be present at the marriage of his daughter who resides there. He will not return to New York until the middle of January.

### New Setup for Royal Exchange

The general agency of Cravens, Dargan & Fox is taking over the Pacific Coast representation of Royal Exchange and Royal Exchange Underwriters. Heretofore Royal Exchange has been under the same management on the coast as that of the St. Paul F. & M. group.

Cravens, Dargan & Fox will have Royal Exchange in Montana, Utah, Nevada, Arizona, Hawaiian Islands and Alaska and Royal Exchange Underwriters in California, Oregon, Washington and Idaho.

The present California general agency of Richards & Co. for Royal Exchange and Provident Fire and Car & General, is not disturbed. Lamping & Co., Seattle, continues as general agent for Royal Exchange and Provident Fire in Washington and Oregon.

### Asks Manual Countersignature

Insurance Director Palmer of Illinois has ruled that certificates or policies furnished purchasers of financed automobiles must be countersigned manually by a licensed agent. His order states that facsimile countersignatures will not be permitted because of the "peculiar nature of the business and the necessity that every possible step be taken to protect the interests of car purchasers."

Mr. Palmer also announced that the prescribed forms for financed automobile business need not be followed in their exact set-up but may be arranged to meet the individual requirements of companies as long as they contain all the wording exactly as shown in the forms furnished by the department.

# COMPANIES

### Safeguard's New Secretary

C. W. Chappelear of Hartford who has been elected secretary of the Orient, has assumed a like position with the Safeguard.

Mr. Chappelear is a native of Ohio and was educated at Ohio Wesleyan and Ohio State. He was a local agent before being appointed special agent for the London & Lancashire in Ohio in May 1926, becoming state agent in 1938 when he was called to the head office as assistant secretary and agency superintendent January of 1937.

### Church Insurer Covers 3,000 Units

The annual report of Church Properties Fire states that the company has insurance covering more than 3,000 churches and other ecclesiastical institutions of the Episcopal church. It is an affiliate of the Church Pension Fund. Earlier in the year Church Properties Fire paid an $87,000 loss, which was the largest single loss it has ever experienced. Nevertheless, it has earned a fair profit this year, according to the annual report.

### Goes on Dividend Basis

Charter Oak Fire, youngest of the Travelers affiliates, stock of which, excepting directors' qualifying shares, is held by the Travelers Fire, has gone on a dividend basis after slightly more than three years of existence. The Travelers Fire, which began writing about ten years ago, has increased its annual dividend from $8 to $12 a share.

### John Hosking Vice-president

NEW YORK—John Hosking has been elected a vice-president of Excess Management Corporation. He joined the organization last spring as production manager. He was formerly assistant U. S. manager of Century.

### Buffalo Pays Extra

The Buffalo has declared a regular dividend of $3 and an extra of $2, payable Dec. 30 to stock of record Dec. 22.

### Extra Dividend Is Declared

The Springfield F. & M. has declared its regular quarterly dividend of $1.12 a share and a special of 25 cents.

The **Preferred Fire** of Topeka has been licensed in Minnesota.

The **Lafayette Fire** declared a semi-annual dividend of 6 percent, or $1.50 a share, payable Jan. 2.

**Stonewall Insurance Company** has elected Richebourg Gaillard a director. He has been employed by the company for 40 years, for several as secretary.

### Russell, Winchester Change

NEW YORK—The Fire Companies Adjustment Bureau appointed W. F. Russell, Newark branch manager, as district supervisor at Newark. His new duties will include field supervision in the territory covered by the offices at Newark, Jersey City, Paterson and Asbury Park. He has been with the bureau since 1919. P. M. Winchester, who has been active in the bureau since 1926, latterly as assistant branch manager at Newark, will succeed Mr. Russell as manager at Newark, including sub-offices at Jersey City, Paterson and Asbury Park.

### Bennett New Nashville Head

Alfred Bennett has been chosen as president of the Nashville Insurance Exchange. Dorian Clark is vice-president; W. W. Lyon, secretary.

# VIEWED FROM NEW YORK

By GEORGE A. WATSON

**ELWELL BACK FROM TRIP**

Manager E. W. Elwell of the Royal Exchange has returned to his office in New York City after a six weeks' trip to the Hawaiian Islands and Pacific Coast.

**FRIES HEADS BROOKLYN BROKERS**

J. E. Fries was elected president of the Brooklyn Insurance Brokers Association at the annual luncheon meeting. S. P. Eisemann, retiring president, becomes chairman of the executive committee. Mr. Fries has been the vice-president.

**LUNCHEON IS GIVEN FOR CONKLIN**

A group of friends of C. S. Conklin gave him a luncheon in New York the other day on his retirement as United States manager of Pearl. He was presented with an inscribed watch. George Boscher, comptroller of Pearl, was toastmaster.

**RAILROAD CONGESTION**

Insurance men in the east as well as other travelers who sought to spend their Christmas holidays in the south or southwest found themselves confronted with serious railroad congestion as far as getting Pullman accommodations were concerned. Unless they had made reservations three or four weeks ahead they discovered when they went to the ticket offices a week or 10 days before leaving that there was not even an upper berth left. The railroad people found it difficult to account for this heavy travel at this time of the year, saying it was unprecedented.

**NOW HOEY, ELLISON & FROST**

The old New York firm of Hoey & Ellison is being reorganized as Hoey, Ellison & Frost. The new officers are James J. Hoey, president; Henry E. Frost, vice-president and treasurer; Daniel A. Palmer and W. J. Witschen, vice-presidents; Marcus Baehr, secretary; E. G. Svenson, comptroller.

Mr. Frost has been chief assistant to Mr. Hoey since the death of Bennett Ellison a year ago. He has been in the insurance business since 1894.

Hoey & Ellison has been a partnership. Hoey, Ellison & Frost is a corporation. The life insurance department which represents Equitable Life of Iowa, will operate as a separate unit under the title of Hoey & Ellison Life Agency, Inc.

Mr. Witschen is manager of the casualty department.

**NEW FIDELITY-PHENIX ENTERPRISE**

T. D. Hughes, who was recently called into the America Fore head office from the Florida field and was made secretary of Fidelity-Phenix, will be in charge of a New York local department of Fidelity-Phenix at 80 Maiden Lane. He will be assisted by J. G. Sullivan, manager of production; Joseph Scott, chief underwriter; C. K. Cagle, manager brokerage department; G. L. Veith, in charge of automobile and inland marine; C. F. Kastner, general cover; S. D. Duffy, solicitor, and Ralph C. Schneider, production.

**THOS. A. WALSH JOINS HOPPS**

Thomas A. Walsh, who has been an active producer for the Thomas E. Wood agency of Cincinnati, is resigning to become affiliated with the Atlantic Brokerage Company of New York. Since Stewart B. Hopps, former United States co-general agent and later co-production manager for Pearl, is affiliated with this brokerage house, this addition to its staff is regarded as significant by insurance people who have been expecting Mr. Hopps to operate on a large scale.

The resignation of Mr. Hopps and George C. Stevens as production managers for Pearl, a post which they have held since last March, becomes effective Jan. 1. Prior to that they had been United States general agents of the Pearl since 1932, building up a phenomenal premium volume. The accession of A. L. Merritt to the United States managership of Pearl marked a shift in that company's American policies to more conservative methods and it was expected that Mr. Hopps would turn his remarkable salesmanship qualities into other insurance channels.

Although the exact details of Atlantic Brokerage Company's activities are lacking, it is understood that Mr. Walsh will specialize on reinsurance treaties and similar insurance matters. He expects to do considerable traveling throughout the United States. He and Mr. Hopps had considerable contact when the Wood agency represented Pearl. They are both dynamic salesmen and are known for their ability to go after large lines.

Mr. Walsh was born in Quebec and educated at Laval University. He joined the Canadian army in 1915 and saw active service in France and Germany. In 1919 he entered the insurance business with Johnson & Higgins in New York and went to the Chicago office of that organization in 1924. He established a brokerage department for the Wood agency in 1934 and has been active and successful in the solicitation of national accounts for that office.

# CHICAGO

**A. M. BLUMENTHAL STRICKEN**

A. M. Blumenthal, secretary of the Chicago Board, suffered a heart attack the other day and is confined to Passavant hospital in Chicago. Mr. Blumenthal has had to be careful of his health for the past three years or so, as he was struck previously. He appears to be making a satisfactory recovery from the present attack and may be back on the job shortly after the first of the year.

**SAMUEL INSULL, JR., INSURANCE MAN**

Samuel Insull, Jr., who has been assistant to the chairman of the Commonwealth Edison Company of Chicago, has resigned to become identified with the W. A. Alexander & Co. agency of Chicago. Mr. Insull is one of the prominent young business men of the city.

**FRANK POST RECOVERS WELL**

Frank A. Post, news editor of THE NATIONAL UNDERWRITER and editor of the "Accident and Health Review," who underwent a serious abdominal operation in Passavant Hospital, Chicago, last Thursday, is making a completely satisfactory recovery and is now reported to be out of danger. He will, of course, be confined to the hospital for several weeks and it will be some time before he is able to get back on the job.

**REPORTS ON ADDISON FARMERS**

The Illinois department has published the results of an examination of Addison Farmers Mutual of Elmhurst, Ill., as of Aug. 31, 1938, showing assets $223,005 and net surplus $127,060. Secretary L. J. Goebel is the operating officer. The company confines its writings to DuPage and surrounding counties. It has about 50 agents. Net premiums written for the first eight months of 1938 were $36,501, net losses paid $8,409.

**W. M. Murray** of the Illinois department went to Denver for the Christmas week-end to be with the family of Mrs. Murray, who died some months ago.

Carl O. Noreen, who conducted Noreen's Insurance Agency at **Louisville, O.,** died.



## Act Done Stealthily Not Riot, Illinois

(CONTINUED FROM PAGE 5)

changing the common law must be construed strictly and not interpreted as creating any change beyond what is expressed by the wording or necessarily implied in the wording. Since "force and violence" were not defined or amplified in the Illinois riot act, he therefore concluded that this did not change the common law concept of a riot as something done in a violent and tumultuous manner.

As further evidence to support his conclusion, Justice Stone pointed out that the legislature could not be presumed to have intended that the riot act should include crime done by stealth, because many other laws have been passed punishing crimes in the general classification of malicious mischief. These statutes would have been unnecessary if the legislature had intended the riot act to include such crimes. Having concluded that the legislature intended the riot act to mean that the element of force and violence should have its common law meaning, he pointed out that the acts under which the claim on the insurance policy was made were done stealthily and with an attempt to evade, rather than defy the owner or officers of the law and hence did not constitute a "riot" and were not covered by the riot section of the supplemental contract.

## Finance Business Agreement Sought

(CONTINUED FROM PAGE 3)

pany, American Security, has sprung up in Atlanta. There is Emmco in South Bend, Ind., writing insurance on cars financed by Associates Investment. Then there is West American in California. Colonial Finance Co., of Lima, O., had Shawnee Mutual for a time, but that project was later abandoned. There are reports that similar carriers will be organized, tied up with some large finance company or group of companies and in that case the local agents will be deprived of the business entirely. Several such promotions are said to be under way in Texas.

### Palmer and Blackall Helpful

The executives of the agency companies, therefore, trust that in their efforts to solve the problem they will have intelligent cooperation from the agency ranks. These executives feel that Insurance Director Palmer of Illinois has done a splendid piece of work in his insurance finance probe and the recommendations that he has made. These same officials are anxious that Commissioner Blackall of Connecticut who is chairman of the sub-committee of the insurance commissioners be retained in office since he has done a splendid piece of constructive work. If common sense is applied to solve the problem executives feel that a way out can be found.

## N. Y. Code Sponsors May Accept Partial Victory

(CONTINUED FROM PAGE 3)

eral, these are the sections which would further intrude the already great power of the New York department into the management of company affairs. The worst aspect of this tendency is that by being made a part of the law it ties the hands of the insurance superintendent in many types of situations where he could, with more discretion than is granted him in the law, handle matters without waiting for a new law to be passed.

### PIPER GIVES DATE

BUFFALO, N. Y.—Assemblyman R. Foster Piper, chairman of the joint legislative committee on insurance law revision, announced that the proposed revision would be introduced in the legislature in February. Mr. Piper said that the committee has endeavored to write a new law that will provide every possible safeguard to keep companies solvent without interfering unduly with company management. He also pointed out that the bill authorizes creation of non-profit medical service corporations similar to existing hospital service corporations.

## VIEWS and Trends

(CONTINUED FROM PAGE 3)

seems to think that he has the problem solved and has the world by the tail. No one yet has been able to make any money on underwriting of this type. It is the jumbo business taken at lower rates, perhaps paying excess commissions, and with liberal provisions that brings grief.

* * *

### REGIONAL SUPERVISORS

There is much interest taken in the Royal-Liverpool management in establishing regional managers throughout the central west. Some companies concluded that the group was establishing branch offices relieving the head office of considerable underwriting and administrative work. As a matter of fact the management decided to have throughout the territory regional supervisors with considerable authority so that they could handle in short order many questions that heretofore had to be decided at the head office. In other words, the Royal-Liverpool is getting in closer contact with agents and giving them better direct and intimate service than they have had. This will result in fewer trips of higher executives to the field.

There has always been a question of whether there was any economy in concentrating all activities at the head office and departing from the old western branch system. Since so many western departments have been consolidated with the head office and all activities put under one roof, it has been necessary for executives to make more frequent trips even with brokerage and service offices being located at Chicago. United States Manager Warner at one time decided to experiment as far as the expense item was concerned. The Liverpool & London & Globe had moved its western headquarters from Chicago. Royal and Queen still maintained their western department at Chicago. It was his plan therefore to give the Royal and Queen five years' experience and then compare that with the similar experience of the Liverpool. Unfortunately an untoward situation arose in the western department of the Royal and Queen that forced Manager Warner to act hastily and move the departments from Chicago. Hence a comparison could not be made.

**Julius M. Ettenheim**, insurance and real estate agency at 213 West Wisconsin avenue, Milwaukee, filed a voluntary petition in bankruptcy in federal court listing liabilities of $374,794 and assets of $10,687, of which $4,771 are claimed exempt.

# EDITORIAL COMMENT

## Need Real Insurance Leadership Today

FIRE insurance and its immediate family of affiliated coverages is confronted today with lack of leaders in which the business as a whole has supreme confidence. A great industry like fire insurance should develop men at the head of the column who are possessed of unusual ability, knowledge of their business, broad in their outlook and possessing particularly those virtues that keep them within the straight and narrow path.

There is a call for those of fundamental integrity, those that recognize the difference between false and true, right and wrong and pursue a conscientious course. There are many men of signal endowment who would measure up to the various standards that we might apply to leadership and yet they would fail at a very vital point, viz., business probity. The rank and file will not follow a leader unless they have full confidence in him. They want a man not only of superior mental endowments but they also will insist on one who is strictly honest in all his dealings and especially in his relations with his fellows. They seek one very free from cowardice, greed and undue selfishness.

Unfortunately fire insurance is confronted with competitive problems and in meeting these, men in the front ranks who would otherwise make admirable leaders yield to temptation and here and there get outside of the straightforward road, travel into the bypaths and become more or less sharpshooters. Above all today is the urge for highminded, upright, sincere, conscientious men who are willing to sacrifice dollars for the benefit of their industry as a whole. That, of course, calls for the highest type of moral courage and determination. The head of an institution in making such a sacrifice would have to have back of him not only the cooperation and understanding of his associates engaged in the direct management, but also strong directors and main stockholders. In the long run a man of that caliber and type would gain financially, would build more solidly and would elicit the utmost confidence of his fellows.

Today a leader is needed with the same traditions about him that surround the captain of a great vessel. He must have on his mind the responsibility of his position. He must be the last man to leave the bridge. Displaying judgment that is the best and valor of the noblest kind, by his very presence and orders he commands the confidence of those with him. It is this sort of leadership that would mean much today in fire insurance. Such men can be found in the institution.

## Casting Out Fear

A VETERAN fire insurance man who has been through manifold experiences remarked the other day that people in the business seem to be in constant fear that something is going to happen and the worst never happens. In times of real emergency the fire insurance business has been able to give a good account of itself and meets obstacles of a momentous character. However, as conditions arise in the business that seem to be ominous, the clouds usually roll away or at least there is nothing worse than a thunder storm. This underwriter feels that much can be gained in mental and spiritual strength by casting out fear as far as possible and having more confidence in the judgment, experience and good sense of fire underwriters to meet situations as they arise successfully. A level head is needed in these times.

## Getting Strength from One's Work

UNLESS a person intends to extract some happiness and contentment from the job he holds and the work he is doing he will never learn what happiness really can be attained by a person who spends a good part of his day with his task. Work is always a great discipliner, a developer, a builder up.

## Insurance Book Lists Are Valuable

INSURANCE men appreciate the book lists that are gotten out by the insurance libraries in cities where such are maintained. These are very valuable and informative. Many people in the business are now reading more literature pertaining to their own special field. Now and then there are excellent books, articles, trade papers, bulletins, brochures, etc., published which are mobilized in these insurance libraries and many of them would be unknown were it not for these excellent lists that the librarians circulate. In connection with the educational wave in insurance that is sweeping the country, insurance libraries become a very potent factor. They deserve enthusiastic support of those in the insurance business.

## Insurance Is Handmaid of Credit

BUSINESS would be in a chaotic state were it not for insurance because insurance is the handmaid of credit. Unless there is proper protection of property all along the line and safeguards placed around men and their possessions to lessen the shock of loss that might follow a number of possible accidents there would be much uncertainty and capital would be unwilling to encounter so many perils. Therefore, trade and commerce in their various channels are just as dependent on insurance as on banking. In order to have trade and commerce work harmoniously and smoothly, credit is necessary and back of credit is always insurance.

# PERSONAL SIDE OF THE BUSINESS

**William H. Gmeiner** of Kelly, Halla, Peacock, Detroit, is the father of a new baby daughter, Susan Gmeiner, born on Mr. Gmeiner's birthday.

**Clarence T. Hubbard,** assistant secretary of Automobile of Hartford, contributed an article to a recent edition of "Barron's" entitled "Lloyd's Thriving Young Rival." This article written in Mr. Hubbard's usual entertaining style, informs the non-insurance reader about the many kinds of risks that can be covered under inland marine contracts.

The insurance round table of the Down Town Club of Philadelphia tendered a luncheon to **John Glendening,** resident vice-president Franklin Fire, on the occasion of his becoming the father of a boy.

**J. P. Henry** of the Daniel & Henry Company, St. Louis, gave the description in connection with a special half hour Christmas eve broadcast from the birthplace of Eugene Field, children's poet. He directed rehabilitation of the Field home in 1934 and is now chairman of the board of trustees for the home.

**A. Burt Armstrong,** 74, vice-president of the Armstrong-Roth-Cady Co., Buffalo, died in his home here after two weeks illness.

**David W. Hosmer,** son of President R. C. Hosmer of Excelsior of Syracuse, has returned to his home from a trip around the world and is being extensively quoted on his impressions in the Syracuse "Post Standard." David Hosmer graduated from Dartmouth last June and the trip around the world was the gift of his parents.

**Paul M. Brown,** vice-president of Bowes & Co., Chicago agency, has gone to Miami to spend a few weeks with his wife and daughter, who have been visiting there for some time.

United States Manager **Harold Warner** of the Royal-L. & L. & G. group, has returned from a trip to the head office in London where he spent a few days.

**E. G. Seibels,** president of Seibels, Bruce & Co., Columbia, S. C., and head of the Cotton Fire & Marine Underwriters, has been made chairman of the board of the University of South Carolina. He graduated from the university in 1885. He has been a member of the board since 1931.

**H. T. Cartlidge,** New York City, deputy United States manager of the Royal-L. & L. & G. group, and Mrs. Cartlidge spent the Christmas holidays in Evanston, Ill. They were visiting relatives in that suburb of Chicago.

**B. M. Culver,** president of the America Fore companies, and Mrs. Culver took a cruise to Bermuda during the Christmas season.

**Charles Brice,** president McAlester Insurors Exchange, McAlester, Okla., died suddenly at the age of 62. For many years he was prominent in Oklahoma insurance having operated a local agency.

More than 100 employes of **General Insurors, Inc.,** and St. Louis Fire & Marine received a handsome Christmas bonus.

### Same Firm Has Two Magazines

Although Cravens, Dargan & Co. of Houston and Cravens, Dargan & Fox are two different names for identically the same firm the corporation publishes two distinct monthly magazines for the benefit of its agents who operate in territories that are subject to different laws, rules, rates and forms. The "Review" of Cravens, Dargan & Fox goes to agents for the Pacific Coast territory while the "Review" of Cravens, Dargan & Co. goes to agents in Texas and Louisiana. They are exceptionally readable publications. They are newsy and informative and are attractively made up.

### Doyle, Christensen Give Views

NEW YORK—J. H. Doyle, general counsel National Board, and F. A. Christensen, vice - president America Fore, entered objection to the proposed extension of the New York department's authority over rate making at a hearing before the New York legislative code revision committee. Mr. Doyle also objected to the suggested change in the law, which would curtail the freedom of choice of company managements in making investments.

### Broderick Group Declares Bonus

DETROIT—D. F. Broderick, president, announced $26,000 bonuses will be distributed to employes of the several companies in the Broderick group, including the Broderick agencies, Dearborn National and Service Fire.

MEMBER AUDIT BUREAU OF CIRCULATIONS

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# NEWS OF CASUALTY COMPANIES

## Boston Mutuals Are in Difficulties

BOSTON — The long list of domestic mutual casualty companies which have failed in Massachusetts in the past 10 years handling compulsory automobile liability insurance may be increased due to Commissioner Harrington calling on the attorney-general for an injunction to restrain the Canton Mutual Liability and Broad Street Mutual Casualty, both of this city, from operating. Both were licensed by former Commissioner DeCelles in the last months of his term a year ago.

The Broad Street Mutual had written about one and one-half millions of automobile liability business in the year and the Canton an even larger amount.

A meeting of the casualty companies handling the automobile liability line in the state has been called when the commissioner will present a plan for allocation among the remaining companies of 1939 business placed with the two companies.

### Counsel Admits Troubles

At a meeting of several hundred agents, brokers, policyholders and claimants' attorneys, Counsel Herbert S. Avery of the Broad Street Mutual admitted unpaid accident claims of $600,000 were outstanding representing 3,500 claims, as a result of the first year's business. He stated the mutual had only about $200,000 reserve assets and suggested claimants agree to accept 15 percent settlements, or $90,000, thus leaving $110,000 free assets as part of a plan to rehabilitate the company.

A committee of officers and attorneys was named to meet with the commissioner with the idea of raising adequate funds to keep the mutual going. The 1938 policyholders numbering 30,000 will be protected through the balance of 1938 by the five-day cancellation law. It is claimed 10,000 others had taken out insurance with the company for 1939.

Proposals for reorganization of the two mutuals were turned down by Commissioner Harrington after a day of conferences with policy owners, claimants and Attorney-General Dever. Mr. Harrington stated he would institute receivership proceedings against both companies in the supreme court immediately.

## Indemnity Company Capital Is Boosted to $2,500,000

Through declaration of a stock dividend of $1,500,000, capital of Indemnity of North America has been increased from $1,000,000 to $2,500,000. The number of shares outstanding is thus increased from 10,000 to 25,000. Except for 20 qualifying shares, the entire stock is owned by the North America. As of Dec. 31, 1937, Indemnity of North America reported net surplus of $5,017,370. Total cash dividends paid by Indemnity of North America since its organization in 1920 amount to $1,515,000. The investment of North America in the Indemnity Company amounts to $7,000,000.

### Reports on New Century Casualty

Assets of New Century Casualty of Chicago as of April 30, 1938, amounted to $609,573, capital $200,000 and net surplus $63,746, according to the report of an examination just published by the Illinois department. Albert Kahn is president, and Harold Salomon is secretary-treasurer. New Century writes plate glass and automobile P.L. and P.D.

It is writing automobile under a so-called 40-30-30 plan whereunder 40 percent of the annual premium is collected to carry the policy for four months. The expiration date shown is always for a four month period. The coverage may then be extended under an endorsement, for a three month period for an additional 30 percent of an annual premium. Pleasure car business is written at 20 percent below conference rates. It writes a joint autombile policy with Union of Indiana.

For the first four months of 1938 net premiums were $173,034, net losses paid $67,581, expenses $89,623. For the entire year of 1937, premiums were $419,654, losses paid $186,310 and expenses $220,194.

### U. S. F. & G. Resumes Dividends

BALTIMORE—Directors of United States Fidelity & Guaranty have decided upon a resumption of dividends on the common stock by declaring a distribution of 25 cents per share, after an interval of seven years. The dividend is payable Jan. 16 to holders of record Dec. 21.

Allied Mortgage Company, a subsidiary of U. S. F. & G. on Dec. 1 paid off all remaining bonds of the Allied outstanding, to the amount of $3,162,000.

The dividend declaration had a stimulating effect upon the trading in the stock on the Baltimore Exchange.

### Send Final Assessment Notices

Deputy Commissioner Benjamin, in charge of the California liquidation bureau sent out final assessment notices to policyholders of the defunct Gibraltar Casualty. The statute of limitations will run shortly after Jan. 1. Attorney Fay of the bureau expects to file necessary action in superior court in time for the court to make its order to show cause not later than Jan. 22. It is intimated that when the liquidation is closed creditors will receive a much larger percentage of their claims than has been the case in any liquidation for a number of years.

### To Raise Capital to $2,000,000

Stockholders of Continental Casualty at their meeting Feb. 1 will vote on a proposal of the directors to increase the capital stock to $2,000,000 from $1,750,000. This will be accomplished by the payment of a stock dividend of one share for every seven shares now held. In 1932, the capital was reduced to its present figure by reduction in par value from $10 to $5.

### National Surety Vice-president

C. A. Keppler, who for 20 years has been connected with the National Surety, has been elected a vice-president. All his business life is associated with this company.

### Hardware Indemnity Licensed

ST. PAUL—The newly organized Hardware Indemnity of Minnesota, an affiliate of the Hardware Mutual Fire of Minnesota, has been licensed by the Minnesota department. Capital is $150,000.

A $2 dividend has been paid stockholders of the **Michigan Surety**, a $4 total for the year.

The **American Fidelity & Casualty** declared a quarterly dividend of 15 cents plus an extra year-end dividend of 5 cents a share payable Jan. 10 to stockholders of record Dec. 31.

# CASUALTY PERSONALS

**Kenneth Spencer,** vice-president Globe Indemnity, is still at the head office of the Royal-Liverpool & London & Globe, where he has been in consultation with the chief officials for a number of days.

**Robert A. Larson,** aged 33, assistant automobile manager Pacific Employers, died at the Golden West Hospital in Los Angeles of a complication of diseases.

Mr. and Mrs. George Haydon, Milwaukee, announced the wedding of their daughter Jean to Alex Hazlewood of Chicago on Dec. 30. The bride's father is general manager Wisconsin Compensation Rating & Inspection Bureau. Mr. Hazlewood, who is in the underwriting department of the North America, is the son of H. R. Hazlewood, widely known Milwaukee insurance man. The young people will make their home in Chicago.

**Jerome A. Young,** assistant secretary of Monarch Life of Springfield, Mass., was honored by the Springfield Advertising Club. He was presented with a rare etching of William Pynchon, founder of Springfield, as recognition for distinguished services to the club and to the community. Each year the club recognizes two citizens of the community in its awards. Mr. Young has charge of the advertising of Monarch Life. The sales material advertising used by the field force of the Monarch has often received high ratings in advertising exhibits.

**Geo. J. Cooper,** of the Michigan Mutual Liability legal staff, president of Detroit Adjusters Association, was appointed chairman of the insurance section of the integrated state bar of Michigan. Recently he was appointed chairman of the Detroit Bar Association's insurance committee.

General Manager **C. W. Fairchild** of the Association Casualty & Surety Executives and Mrs. Fairchild are spending the holidays at Jacksonville, Fla., and that vicinity. Mr. Fairchild is combining a business and pleasure trip. He intends to do some fishing off the coast.

### To Press Central West Liquidation

LANSING, MICH.—Central West Casualty, now in receivership, is found liable by the Michigan supreme court for certain state monies on deposit with the Capital National bank here when that institution closed its doors at the time of the bank holiday in February, 1933. An Ingham county circuit court opinion that a depository bond was in effect despite a change in administration of the state treasurer is upheld.

The original claim was for $531,117 but dividends paid by the receiver have reduced the amount to about $300,000. Commissioner Gauss, as receiver for Central West, said the subrogated claim against the bank becomes merely that of a general creditor without preference.

The Central West's final liquidation is to be pursued immediately in the wake of the recent sale to the D. F. Broderick interests in Detroit of Great Lakes Casualty, whose stock was held by the department for the benefit of Central West creditors.



## REJECTED RISKS

One of the insurance offices sent **The National Underwriter** the other day a publicity release about its Christmas party in which reference was made to "Santa Clause." No doubt this is the branch of the Santa family that embraces such other members as Gold Clause, Iron Clause, and Contribution Clause.

On the walls of a Chicago restaurant which specializes in Idaho baked potatoes are these inspired characterizations of this specialty:

"For a titillating palate, just say 'Idaho'."

"For a dream of delectability, just say 'Idaho'; for refulgent happiness; for the quintessence of mealiness; for robust health; for concentrated vitality."

And then there is this poor thing:

"For real enjoyment, just say 'Idaho'."

What in the world do you suppose happened to the muse?

*The insurance angle? Well, a lot of insurance gentlemen and ladies eat there.*

**Allen G. Tindolph,** Los Angeles, former special agent in the Pacific northwest, died.

*The* NATIONAL UNDERWRITER

December 29, 1938 CASUALTY AND SURETY SECTION Page Fifteen

# Casualty Insurance Year Has Been Kaleidoscopic

## Developments of 1938 Have Been Numerous and Significant

**By GEORGE A. WATSON**

NEW YORK—Several weeks ago a company executive addressed the leading casualty and surety companies, giving the premium income, and loss and expense experience of his office for the first nine months of this year, and asked that he be favored with the same figures for the companies addressed. Responses were received from 35 offices, including the leaders in the field. From the returns, it was clear, that if the same pace were maintained through the succeeding three months, the business as a whole would show a falling off of approximately 5 percent as to income for 1938, but that an underwriting profit would be made.

Virtually every division of the casualty and surety business, it is anticipated, will record a profit, modest or substantial, when final figures are available.

### Rates Cut, Coverage Liberalized

In several lines of casualty and in fidelity and surety coverage has been broadened and rates reduced.

The income from workmen's compensation, which gave signs of good gains in the first quarter of the year, fell off in the summer, and while some improvement was subsequently shown, the premiums are running about 5 percent below 1937. Losses, however, have not been excessive, and the line will return a profit.

The largest casualty line continues to be automobile, which produced premiums for stock carriers in 1937 in excess of $220,000,000. It is doubtful if that figure will be attained this year, due to the slump in cars earlier in the year. While recovery has been pronounced lately, the ealier losses will not be overcome.

The safe driver plan for automobile, adopted by the bureau companies early this year, is now in force in 32 states and the District of Columbia. Those who have the greatest faith in the plan believe that those who have been lukewarm or antagonistic will be converted by the public reception that will be accorded the first checks paid in recognition of an accident-free record.

### Truck Pool Idea Lacks Support

The idea of a pooling arrangement to handle long haul truck insurance, discussed from time to time, has not yet crystalized into action nor is there early promise that it will. Advocates of such a setup encounter too much resistance and inertia in high places.

In the burglary field sharp rate re-

(CONTINUED ON PAGE 28)

# Scan Reinsurance Problems in Accident and Health

The need for reinsurance of personal accident coverages was first recognized by underwriters nearly half a century ago. By the exchange or reciprocal method, increased indemnities could be written without the sacrifice of a reasonable spread. As the business grew, consistent demands from the public and company agents for higher limits of principal sum and time indemnities necessitated more and more such reciprocal arrangements under which companies exchanged portions of larger risks.

With the advent of more companies in the accident field and the development of the business, it became necessary for each to exercise care to determine that policies were not carried upon the same risk by more than one of the companies exchanging reinsurance. Because of the detail necessitated by this contingency, the wide differences in policy contracts and rates, and the adding of additional features through competition, this exchange method became impracticable. Even today this method is employed in scattered instances between companies which issue policies of approximately the same limits, terms and rates, but even in such cases as this the method ordinarily involves too great an amount of detail and expense to be permitted by the low margin of profit usual to this line of insurance.

### London Market Utilized

As the accident insurance business continued to grow and these old reinsurance methods became outmoded, reinsurance treaties were arranged, principally in the London market. For years these proved satisfactory, but as the hazards affecting accident insurance increased and as broader policy forms caused accident insurance to become less profitable and finally unprofitable, these reinsurance contracts were terminated, so that during the late depression few such treaties remained in force in the London market which were not contingent upon reinsurance of other casualty lines.

During those unprofitable years the same conditions largely pertained to treaties with American reinsurance companies. Because of continued excessive and mounting loss ratios it was difficult for any company, especially one writing only accident or accident and health business, to arrange an entirely desirable reinsurance agreement. Fortunately accident experience has materially improved during the last few years, and domestic reinsurers have naturally come to look upon this line much more favorably. There has, of course, also been a change in the attitude of London reinsurers, one of the most noteworthy recent developments being their willingness to reinsure the over-age risks of accident companies. The principal question which presents itself to the company which is considering the writing of over-age risks with a backing of a reinsurance treaty of this type is, "What will London's attitude be should this type of coverage prove unprofitable or should accident insurance, generally, again run into a period of high loss ratios? Will we be left with no reinsurance market for these over-age risks?

There has never been a wide margin of profit in this line of business. There has been a tendency to refrain from increasing rate structures even when hazards were materially increasing. The companies have in the past complied with agency demands and competition from other companies and have broadened policy forms often with no more than vague ideas as to the costs of additional features included in new forms. This practice has been, commendably, largely discontinued.

As a result of the lessons learned from the depression, the average company has established certain limits of indemnities which it will write on any one individual and similar limits of amounts in which it will participate even with other companies on one person. Important steps have been taken toward the standardization of policy forms and clauses and of rates applying to such forms. Improved systems of recording experience and determining the values of the various parts of accident policies have been established. Cutthroat competition has been much less in evidence than it was a few years ago and, in fact, a spirit of cooperation among the accident companies has been increasingly evident.

It is to be hoped that these gains will not be lost, but the avalanches of hospitalization policies with which the companies are now flooding the country, in competition with both non-profit and other insurance organizations, gives rise to a little apprehension as to a possible return to former competitive methods. It would be hard to find two insurance contracts covering hospitalization or medical, surgical and nursing expense which are just alike in either coverage, wording, or rates, and there are some parts of this coverage for which no sound rate can be developed because of lack of valuable statistics.

Reinsurance companies probably will not be involved under such policies because of the small total limits provided. However, if competition in this field should prove epidemic and the situation of a decade ago should be repeated in the accident business, they would be directly affected and when another period of serious economic depression is reached, they would perhaps again find themselves faced with great difficulty in providing desirable reinsurance on an equitable basis.

In the years 1931 and 1932 the experience of the several major reinsurance companies in the United States was, for

(CONTINUED ON PAGE 28)

## Automobile Fatalities Far Less During 1938

**The Travelers estimates the 1938 automobile fatalities to be 19 percent lower than 1937, the best record in five years. Deaths are put at 32,500 as compared with 40,000 in 1937. The record is better in almost all states. Michigan and Rhode Island lead with 38 percent less fatalities.**

# Casualty-Surety Cost Questionnaire Is Exhaustive

## Insurance Director Palmer of Illinois Demands Record in Minute Detail

In addition to the information on acquisition cost of fire and inland marine business, Insurance Director Palmer of Illinois has sent a questionnaire requiring complete information on all casualty and surety commissions to all companies in Illinois. This is in line with Mr. Palmer's belief that the acquisition cost situation cannot be remedied unless attention is given to every phase of the business except life.

Information is required for the years 1937 and 1938. The 1937 report must be in the hands of the department not later than Feb. 1 and the 1938 report by March 1. The request for information states that it must include policies countersigned in Illinois, no matter where they cover and that individual company figures will not be made public.

### Classes Are Subdivided

The classes to be treated are: Accident & Health; automobile liability (public passenger carrying risks and long haul truckmen); all other automobile liability; liability other than automobile; workmen's compensation; sprinkler leakage and water damage; burglary (Securities policy covering on the premises of the assured); burglary (all other forms); plate glass; steam boiler, engine, fly wheel, machinery and electrical equipment; automobile property damage and collision (public passenger carrying risks and long haul truckmen); all other auto property damage and collision; property damage and collision other than auto; fidelity, surety and forgery bonds (exclusive of bonds mentioned below); depository bonds, commercial blanket fidelity and blanket position bonds, railroad, primary blanket fidelity, culpable negligence bonds; bankers, brokers, building and loan blanket, securities blanket, blanket forgery and alteration bonds.

This information must be further divided by each individual Cook county contract general, regional or district agent; by Cook county local agents, and brokers grouped in one total but giving number of such producers from which business was received.

Companies not operating under the rules of the acquisition cost conferences will report by classes separately for each Cook county agency from which they received $25,000 or more in premiums for all forms of coverage, information covering all other agencies may be combined in one total giving number of agencies so reported.

In Illinois outside of Cook county the same information is called for.

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# Hospital Forms Are Sent to Companies

### Personal A. & H. Bureau Makes Use Optional—Rates Are Suggested

Two hospital contracts suggested for use by member companies by the Bureau of Personal Accident & Health Underwriters, it is believed will not be taken up enthusiastically by many companies at once. Companies are feeling their way in this field and, since use of the forms is optional, each may wait for the others to do the field testing.

These forms are Numbers 7 and 8, the first being the allocated contract and the second unallocated. The bureau suggests maximum of $1,000 hospitalization for each. Illustrations below are for $500 limit.

#### Protection Afforded

Form No. 7 provides hospitalization up to $5 a day actual cost, miscellaneous expenses up to $25 any one sickness, and surgical expenses according to a schedule. Form 8, unallocated, makes no requirements as to how the expense shall be apportioned.

Both forms apply only to disability due to sickness, and exclude accidental means, and also disability occurring in military service. The exclusion clause is clear and simple.

Both men and women may be written on Form 7, but apparently women are not intended to be written on Form 8, unallocated, as rates for them are not given. It appears their susceptibility to complaints make them hazardous to write in the less restricted form.

Rates for Form 7, $500 limit, suggested by the bureau are: Men—ages 18-49, $20; 50-59, $27.50; women—18-49, $32; 50-59, $44. Form 8, men—18-49, $32; 50-59, $44. The rates quoted for women exclude illness due to pregnancy, miscarriage or childbirth. An alternate form excluding also diseases of the generative organs carries rates for women of $25 and $34.50, respectively.

#### Offer Additional Limits

Additional limits in Form 7 may be added by these extra premiums per $100 additional up to $1,000 maximum: Men—18-49, $1.50; 50-59, $2; women—18-49, $2.40; 50-59, $3.20. Additional limits in Form 8 may be added at $4 and $5.50, respectively, per $100.

The promulgation is entirely tentative. It is assumed companies which decide to write these contracts will follow the accepted practice of requiring the applicant to buy accident reimbursement insurance as a prerequisite to securing the hospitalization.

The contracts are felt to be much broader and more desirable than those issued by non-profit hospital associations. It is true, also, the rates quoted are somewhat higher than those of the hospital outfits. Forms 7 and 8 cover all hospitalization expense within the limits, including ambulance, x-ray, surgical, nurse and other expense.

#### No Decisive Action Taken

No companies as yet have been reported to have decided to issue these contracts. There seems to be the feeling the bureau and its members were driven to take some action by the pressure of non-profit association operations, public demand for hospitalization and the federal government watching the experiment with keen interest.

### Smith Cleveland Manager

C. E. Smith has been appointed Cleveland branch manager of American States of Indianapolis. This is equipped as a home office branch for northeastern Ohio. J. A. Born has been added as an assistant to P. H. McKinley, branch claim manager. All of the business and claims for northeastern Ohio are routed through the Cleveland office.

# Now in Chicago

CARL M. HANSEN

Carl M. Hansen, who was president of the old International Reinsurance and was prominently identified with other casualty reinsurance and direct companies in former years, is now situated in Chicago where he is doing some special work for the Ekern & Meyers law firm. He makes his office with Casualty Mutual of Chicago which Ekern & Meyers represents. Mr. Hansen for the past three years has been located in Washington, D. C., most of the time but he has also visited his ranch in Montana frequently. He is in good health and is much interested in his new activities.

## New Moves Made in Illinois Lloyds Battle

Still another filing has now been made in the famous London Lloyds quo warranto suit in Illinois. Attorneys for the 17 casualty companies that are prosecuting the action have now filed "Reply for plaintiffs on motion to strike amendments to answer and on defendants' motion to strike reply."

Lloyds contended, among other things, that the law requiring alien Lloyds to maintain in Illinois or in any other state in which admitted, minimum assets required of a domestic Lloyds, is not a condition precedent. The surety companies, however, maintain such deposit must be maintained at all times including the time of issuance of the certificate.

Another contention of London Lloyds is that the requirement as to deposits by underwriters applies only to domestic Lloyds. This, counsel for the surety companies, characterize as an "amazing statement."

### Porter Heads Surety Group

PORTLAND, ORE.—At the annual meeting of the Surety Association of Portland, C. D. Porter, Oregon manager Fidelity & Deposit, was named president. C. A. Tomassene, local agent, became vice-president and Philip Carroll, Portland manager Associated Indemnity, secretary-treasurer.

Mr. Porter for many years was with the Surety Exchange, and since 1920 has been associated with Fidelity & Deposit. A number of surety educational meetings will be sponsored by the association next year.

### Employers Lloyds Is Launched

Employers Lloyds was recently organized in Dallas with R. E. Whitten and H. M. Lacy as attorneys in fact. It claims assets of $75,000. Numerous Lloyds' organizations have been launched in Texas in recent months.

# Va. Countersignature Law Answer Filed

### New Move Made in Important Case Testing Resident Agent Statute

RICHMOND, VA.—Attorney-General A. P. Staples, on behalf of the Virginia corporation commission and the insurance commissioner, filed an answer in federal court here to the complaint of 34 casualty companies and three resident managers at Richmond challenging the constitutionality of the Virginia countersignature law.

Staples avers that all contracts of insurance which the plaintiff companies make outside of Virginia covering property, persons or risks in Virginia are made in exercise of privileges and franchises granted to them as licensees of the commonwealth of Virginia to transact their respective business therein. It has been the experience in Virginia, Staples argues, that the statutory provision prior to 1938 which permitted Virginia branch managers to countersign contracts has proven wholly ineffectual and has failed to accomplish the desired purposes of associating an impartial agent with the transaction. It is only by a requirement such as that contained in the 1938 act by which the countersignature of a local commission agent is made necessary that the protection which the public policy of Virginia requires can be adequately afforded the agent and assured, it was averred.

#### Harmful and Partially Destructive

It was further asserted that the practice in entirely eliminating Virginia resident agents from participating in a part of very profitable business and of making choice contracts covering Virginia risks through non-resident brokers and agents not licensed in Virginia and of permitting these non-residents to receive all of the commissions is harsh, unfair and unjust and has been a source and cause of much dissatisfaction and disagreement between them and the companies and has proved harmful and detrimental and partially destructive of the business in Virginia.

The plaintiff companies are the members of the Association of Casualty & Surety Executives.

Staples planned to be in New York Thursday of this week to cross-examine witnesses who were to make depositions on behalf of the plaintiff companies.

A temporary injunction was granted by Federal Judge Pollard recently restraining the Virginia department from enforcing provisions of the act pending a hearing on motion to make the injunction permanent scheduled to be held in federal court here Feb. 1.

Among the witnesses whose depositions were to be taken were Robert N. Nicholls, 80 Maiden Lane, and Theodore H. Haas, 60 John street. The depositions were to be taken in the office of Raymond N. Caverly, vice-president of Fidelity & Casualty.

Before leaving for New York, the attorney-general filed his answer.

Walter H. Bennett, secretary National Association of Insurance Agents, aided in preparation of the answer and later left on a trip to Florida. Mr. Bennett had earlier participated in the argument in defense of the act when argument on the petition for a temporary restraining order was heard before Judge Pollard.

### A. E. Ives Executive Vice-President

A. E. Ives has been elected executive vice-president of American Reinsurance of New York, the well known casualty company. John R. Tappan was elected secretary. He was formerly assistant secretary. Mr. Ives has been secretary and treasurer.

# STOCKS

**By H. W. Cornelius, Bacon, Whipple & Co., 135 So. La Salle St., Chicago, at close of business Dec. 27, 1938**

| | Par | Div. | Bid | Asked |
|---|---|---|---|---|
| Aetna Cas. | 10 | 4.00* | 110 | 115 |
| Aetna Fire | 10 | 1.60 | 46 | 48 |
| Aetna Life | 10 | 1.35* | 26 | 28 |
| Agricultural | 25 | 3.25* | 74 | 78 |
| Amer. Alliance | 10 | 1.20* | 20 | 22 |
| Amer. Equitable | 5 | 1.00 | 24½ | 26 |
| American (N. J.) | 2.50 | .60* | 12 | 13 |
| Amer. Surety | 25 | 2.50 | 50 | 52 |
| Automobile | 10 | 1.30* | 34 | 36 |
| Balt. Amer. | 2.50 | .30* | 5¾ | 6½ |
| Bankers & Ship. | 25 | 5.00 | 92 | 95 |
| Boston | 100 | 21.00 | 590 | 610 |
| Camden Fire | 5 | 1.00 | 20 | 22 |
| Carolina | 10 | 1.30 | 23 | 25 |
| Contl. Cas. | 5 | 1.60* | 37 | 39 |
| Contl., N. Y. | 2.50 | 1.80* | 35 | 37 |
| Crum & Forster Com. | 10 | 1.00 | 23 | 25 |
| Employers Rein. | 10 | 1.60 | 49½ | 52 |
| Fidelity & Dep. | 20 | 2.00 | 115 | 118 |
| Fidelity-Phen. | 2.50 | 1.80* | 35 | 37 |
| Fire Assn. | 10 | 2.50* | 58 | 61 |
| Firemen's (N. J.) | 5 | .30 | 8¼ | 9¼ |
| Franklin | 5 | 1.40* | 28 | 30 |
| Gen. Reinsur. | 5 | 2.00 | 43 | 45 |
| Glens Falls | 5 | 1.60 | 43 | 45 |
| Globe & Repub. | 5 | .50 | 11 | 12 |
| Gt. Am. Fire | 5 | 1.20* | 23 | 24½ |
| Gt. Amer. Ind. | 1 | .20 | 8 | 9 |
| Halifax Fire | 10 | 1.00** | 22½ | 24 |
| Hanover Fire | 10 | 1.60 | 29 | 31 |
| Hartford Fire | 10 | 2.00 | 71 | 73 |
| Hartford St. Boil. | 10 | 1.60 | 51 | 54 |
| Home Fire Sec. | 10 | ... | 2 | 2½ |
| Home Inc. (N.Y.) | 5 | 1.60* | 29 | 30 |
| Ins. Co. of N. A. | 10 | 2.50* | 65½ | 67 |
| Lincoln Fire | 5 | ... | 2 | 3 |
| Maryland Cas. | 1 | ... | 3 | 3½ |
| Mass. Bonding | 12.50 | 3.50 | 50 | 52 |
| Merch.com.(N.Y.) | 5 | 1.70* | 40 | 45 |
| Natl. Cas. | 10 | 1.20* | 26 | 28 |
| Natl. Fire | 10 | 2.00 | 59 | 61 |
| Natl. Liberty | 2 | .40* | 7 | 7¾ |
| Natl. Union | 20 | 5.00* | 112 | 118 |
| New Am. Cas. | 2 | .65 | 10½ | 11½ |
| New Hampshire | 10 | 1.80 | 45 | 47 |
| Northern (N. Y.) | 12.50 | 5.00* | 98 | 101 |
| North River | 2.50 | 1.20* | 25 | 27 |
| N. W. Natl. | 25 | 5.75* | 125 | 130 |
| Phoenix, Conn. | 10 | 2.50* | 77 | 79 |
| Preferred Acci. | 5 | 1.00* | 17 | 18 |
| Prov. Wash. | 10 | 1.40* | 32½ | 34½ |
| Republic, Tex. | 10 | 1.20 | 25 | 27 |
| St. Paul F. & M. | 25 | 8.00 | 224 | 230 |
| Security, Conn. | 10 | 1.40 | 29 | 31 |
| Sprgfld. F. & M. | 25 | 4.75* | 116 | 119 |
| Travelers | 100 | 16.00 | 335 | 345 |
| U. S. Fire | 4 | 2.00 | 50 | 52 |
| U. S. F. & G. | 2 | .25 | 19 | 20 |
| Westchester Fire | 2.50 | 1.60* | 32½ | 34½ |

*Includes extra. **Canadian funds.

## American Motorists Plan Is Ruled Out in Minnesota

ST. PAUL—Over-ruling two previous opinions Attorney-general Ervin of Minnesota this week decided that American Motorists of Chicago may not write compensation insurance in Minnesota under a policy whereby the assured "shall participate in profits as apportioned by the directors."

For more than a year the right of American Motorists to write compensation under that policy has been questioned by other companies. Its policy was not approved by the rating bureau. The matter has been in the hands of the attorney-general for several months. Twice previously the attorney-general's office had held that the type of policy was proper, once in 1924 and again in 1934.

The objection was that the words, "profits as apportioned by the directors," left the gap open for discrimination against some policyholders, inasmuch as the directors were given the right to say how much of the profits each policyholder should get.

### Preferred Pays Special of 20 Cents

Preferred Accident has declared a special dividend of 20 cents payable Jan. 10 to stock of record Dec. 22. The affiliated Protective Indemnity has declared its regular annual dividend of $1.

### Offers "Little Conference" Rates

INDIANAPOLIS.—The Interstate Agency, Inc., "Ramey Service," Indianapolis, has been appointed representative of Pennsylvania Casualty which, in combination with the Corroon & Reynolds companies in the office, gives representatives of the agency full automobile coverage at "Little Conference" rates.

# Change Dates for Casualty Rally

## White Sulphur Springs Meeting Set for Oct. 9 to Avoid Complications

An interesting situation developed in connection with the annual meeting of the National Association of Insurance Agents at Boston and the International Association of Casualty & Surety Underwriters and the National Association of Casualty & Surety Agents at White Sulphur Springs. The casualty people selected the first week of October as the time for their meeting at White Sulphur. Arrangements were made at the Greenbrier Hotel. The National Association of Insurance Agents had set the last week of September, starting Sept. 25, as the time of its meeting. Later it was discovered that the Hotel Statler at Boston, the official headquarters, could not accommodate the convention on that date and hence a shift was made to the first week in October, starting Oct. 2. This brought about a serious complication, inasmuch as a number desired to attend both conventions. Cliff C. Jones of Kansas City, president National Association of Casualty & Surety Agents, is a past president of the National Association of Insurance Agents. The casualty people have been successful in arranging their annual gathering for the week of Oct. 9.

### Pays First Dividend Since 1932

American Casualty of Reading, Pa., has declared a dividend of 15 cents payable Jan. 16 to stock of record Dec. 30. This is the first distribution to stockholders since Jan. 2, 1932.

Net premiums written for the nine months ending Sept. 30 were $2,974,650. That was the largest production for any similar period in the history of the company. Assets were $4,100,571.

### New Agency Superintendent Has Broad Background

CLIFTON W. McNEIL

**Clifton W. McNeil, the new superintendent of agencies of the Massachusetts Accident, has spent his entire business life with the company, starting in 1931. He has had a well rounded experience in all departments and in recent years has done special agency work, taking him throughout the company's territory. He was elected assistant secretary three years ago and for the past two years he has been associate manager of the ordinary department. He is a son of President Chester W. McNeil.**

# *Parmelee Casualty Carrier in Illinois*

NEW YORK—General Transportation Casualty, organized in New York in April, 1938, by Parmelee-Yellow Cab-Checker interests to write taxicab liability and other casualty lines, has entered Illinois and expects to begin writing business there after the first of the year. The type of business that it will seek there is taxicab liability and workmen's compensation, but the latter will be written on risks whether they are connected with the transportation business or not.

Reports have been current in Illinois that General Transportation Casualty would take over the business now being handled by certain Illinois companies specializing in taxi business, but L. D. French, secretary-treasurer, said that no such arrangements had been made and emphasized that the General Transportation's Illinois operations are still in a very formative stage. In addition to its home state, New York, the company has entered Pennsylvania and Minnesota. Plans are being made for obtaining licenses in one or two more.

Rodney Hitt, formerly vice-president of the Rossia, of the First Reinsurance and of the Metropolitan Fire, is president of General Transportation. He is still on the Rossia's board of directors and finance committee.

Mr. French, until he joined the General Transportation Casualty, was a partner in the New York City insurance firm of Eifert & Company, managers and general agents for fire and casualty companies.

In Illinois, Yellow Cab Mutual writes the insurance on Yellow Cabs, while the Checkers are insured in Lake Shore Mutual. Other writers of taxi business in the state are Citizens Casualty, Manhattan Mutual Automobile Casualty and Savings Mutual Casualty.

### Beauty Parlor Treatments Excluded Under P. L. Policy

That beauty parlor treatments are "professional services" within the meaning of the malpractice exclusion in a public liability policy was held by the United States circuit court of appeals in the Nebraska case of Ocean Accident vs. Herzberg's Inc. Pointing out that Nebraska has regulated the practice of "cosmetology," the court maintained that the term "professional" is not restricted exclusively to the so-called learned professions and includes any occupation which requires a special skill and training.

Irene Gray, who operated a beauty parlor under the name of "Marinello Shop" under a lease in the assured's department store, was named as additional assured under the public liability policy. The policy contained the usual exclusion of liability for injuries suffered in consequence of real or alleged error or mistake in administering, applying or dispensing drugs, chemicals, mixtures or the like, making or compounding of prescriptions and rendering of professional services or treatments or the omission thereof.

Grace Robertson recovered a judgment of $14,843 for burns and scars from electrical treatments for removing superfluous hair. The treatments were given by Goldie York, an attendant employed by Miss Gray. The circuit court of appeals reversed a judgment of the lower court holding the insurance company liable and held that the accident amounted to malpractice and was excluded under the conditions of the policy.

### Hold Party in Baltimore

Agents of the Continental Casualty and Continental Assurance Company in Baltimore held a Christmas party. Harlow Brown, vice-president, attended from New York and gave a talk, and R. F. Frazier, district manager, presided.

# Sees Boom in '39

J. W. RANDALL

J. W. Randall, vice-president Travelers, makes the prophesy that 1939 will be a banner year for casualty insurance. He observes that political omens are favorable for business and building activity is running well ahead of last year. Mr. Randall ventures the opinion that small home construction will be more active than it has been since 1930. Automobile dealers cannot make deliveries of new cars these days.

Business men, he says, are interpreting the recent election returns as a promise of a moratorium on disturbing legislation. Previously new laws had been coming so fast that business could not adjust itself to them. Business needs a breathing spell and will probably get one, Mr. Randall asserted.

Automobile insurance should be especially responsive to improved business conditions, he said. If the condition of the rank and file is improved, there will be more money to spend for insurance.

Hundreds of thousands of young men who have employment but who have not received salary increases during the past nine years will get raises as business improves. These boys are going to start ahead, he said. The agents should keep in touch with men in this situation. The new automobile combined P.L.&P.D. policy in $1,000 limits is designed especially for this type of prospect, according to Mr. Randall.

### English American Lloyds Is Launched in Dallas

English American Lloyds of San Antonio, which was recently organized and reinsured all the outstanding liabilities of Texas Reciprocal Exchange of Dallas, puts out a statement as of Dec. 12 showing assets $120,283, including cash $17,476, premiums in course of collection $49,806, notes receivable $8,000 and convertible securities $45,000.

The reserve for losses is set down at $21,316, premium reserve $1,675, reserve for deposit premiums $16,674, surplus $70,131.

English American Lloyds has deposited $60,000 in accordance with the Texas Lloyds law.

T. J. Carter of Kilgore, Tex., an oil producer who is interested in various insurance companies, was the principal owner of Texas Reciprocal Exchange and he is, jointly with C. M. Hitchcock and Leonard Hyatt, attorneys in fact for English American Lloyds. George Westbrook is agency director and L. C. Olinger is in charge of the claims department. Mr. Hyatt was connected with Lloyds America of San Antonio in an executive capacity since 1928.

Mr. Hitchcock is the owner of an agency in Tyler, Tex., and owns a general agency in Shreveport, La.

# *Will Not Write Any Business Direct*

NEW YORK—Vincent Cullen, president of the National Surety, has been taking a leading part in championing the rights of local agents where he felt that their preserves were being encroached on by London Lloyds and similar institutions. It is interesting to know that the National Surety spent during the year some $50,000 in advertising upholding the principles of the local agency system. President Cullen now reiterates the important announcement that because the management believes thoroughly in the services of an expert middleman, who is an agent, broker or producer, it refuses to accept business direct because he says it is not in the interest of the company or the assured to do so. The American business system, President Cullen contends, is one of service and profit and it has created a standard of living which is the envy of the world. Therefore, he said, the National Surety is doing its best to support the American business system.

### Can't Rely on Facts Discovered During Trial

When a company writing liability insurance has taken control of the defense of a claim, declined to settle out of court and gone to suit, it cannot decline liability on the strength of circumstances discovered during the trial. This was held by the supreme court of Mississippi in United States Fidelity & Guaranty vs. Yost. An elevator liability policy was involved in this case.

Payne was killed in an elevator accident in the assured's hotel. The policy contained an exclusion of liability in the event the elevator was operated by any person under the legal age. An ordinance of Nashville, where the accident occurred, set 18 years as the minimum for elevator operators. Ensley, the elevator operator, told the adjuster that he was 19 years old. His application to the hotel for employment contained the same statement.

#### Admits Age Only 17

While on the witness stand during the trial which followed, Ensley admitted that he was only 17 years old. Official records and the testimony of Ensley's parents confirmed this. The company notified the assured that it would no longer conduct the defense. A verdict for $17,000 had been returned, but the company's attorneys made a motion for a new trial, which was granted. No defense was made in the new trial and the jury brought in a verdict of $25,000.

In upholding a verdict by the lower court in favor of the assured, the supreme court of Mississippi pointed out that the company had had every opportunity to investigate the age of the operator and could have ascertained it with little difficulty and that the assured had made no representations to the company regarding Ensley's age. The company by taking charge of the litigation had given the assured no opportunity to make a settlement and had further prejudiced it by the unfavorable publicity attendant upon a suit over an hotel accident. Having thus placed the assured in this position, the court concluded, the company had waived its right to set up a policy condition as a defense against paying a loss.

### Window Breaker on Probation

DETROIT—Elmer LaCross, youth who admitted breaking some 22 windows here that were insured by a company having a replacement contract with the Peterson Glass Company, was placed on probation for two years. His uncle, W. H. May, superintendent of the glass company, who is alleged to have promised to pay LaCross for breaking the glass, and J. O. Peterson, the president, are awaiting trial, having entered not guilty pleas.

# ACCIDENT AND HEALTH

## Hospital Concern's Contract Held to be Insurance

An opinion handed to Commissioner Read of Oklahoma by the attorney-general held that a hospitalization contract submitted by A. J. Moore, sole owner Samaritan Hospital, Oklahoma City, is an insurance contract as defined by Oklahoma statutes. This means that it can be issued only by an insurance company and not by the hospital with its present set up.

The opinion stated that the Samaritan hospital agrees in this contract in consideration of certain payments to do an act valuable to the persons covered by furnishing a month's hospitalization, worth approximately $150 to each of certain persons admitted to the hospital for hospitalization. Also these persons are presumed to be in good health when the contract was issued, and not entitled to hospitalization unless recommended by a physician or surgeon, for some proper cause; also such cases of hospitalization will be commonly accepted by persons covered by such contracts to mean injury or sickness and it was intended that it be so accepted. Therefore this constitutes insurance.

## Pierce Has Disability School

The Massachusetts Indemnity branch office in Chicago, which for several years has been in 111 West Washington street, will move Jan. 15 into much larger quarters in 10 South La Salle street. The change was made necessary by continued growth. A disability school for life insurance agents and brokers will be conducted Jan. 4-6. Arthur D. Dozois, supervising general agent at Albany, N. Y., will have charge and Vice-president J. C. McDonough will go from the home office. The story of the growth of disability coverage will be told, Massachusetts Indemnity's method of writing disability income protection in a separate contract explained and the agents shown how to increase their income by pushing this coverage. W. Welsh Pierce is manager at Chicago.

## Acts Against Hospital Group

ATLANTA—Darwin R. Cobb, local agent, in a mandamus action brought in Fulton superior court, has asked that the United Hospitals Service Association, a non-profit organization, be compelled to comply with all of the laws applicable to insurance companies. It is alleged that the association has collected more than $60,000 during the past year without qualifying as an insurance company. The hospitals service association was established following a constitutional amendment passed in 1937.

## Doctors Adopt Hospital Plan

California State Medical Association, at a meeting of the house of delegates here, voted to form a non-profit corporation under California law to operate a medical service and health insurance. The plan will be for persons with income of less than $2,500 per year. Monthly charge per person to be $2.50 and per family $6 or $6.50. Members may pick their own doctor and hospital. Doctors are to treat members and send bills to the corporation, being paid on a "unit" basis. Nursing fees and laboratory charges will be included. Underwriting of three non-profit systems now operative in the state, Insurance Association of Approved Hospitals, San Francisco-Oakland district; Associated Hospital Service, Los Angeles, and Intercoast Hospital Service, Sacramento, is also contemplated.

## Frank Wins National Honor

L. L. Frank, graduate Aetna Casualty's home office sales course and partner in Stackler & Frank, Aetna representatives at St. Albans, L. I., N. Y., won top prize in the accident insurance campaign by writing largest volume of business of any Aetna agent in October. He started with 40 prospects, selling all of them and 14 in addition. Of his 54 personal accident applications, 49 were paid for in full before close of the campaign. He also produced over $40,000 life insurance, a group life and wholesale life case and a great number of casualty and fire policies, all as a direct result of accident solicitation. Many individuals carried no accident insurance or had only small limited policies, and a number never had been solicited for accident insurance.

He was taken to Hartford as guest of honor at a banquet. Vice-presidents C. G. Hallowell and R. I. Catlin, E. C. Knapp, agency secretary, and A. E. Redding, field supervisor, were speakers.

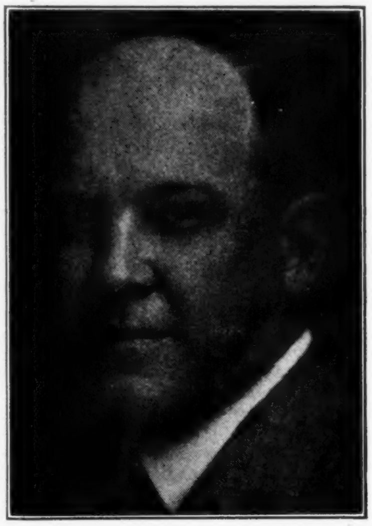
## Form Lawyers Casualty

LINCOLN, NEB.—Articles of incorporation for the Lawyers Casualty of Omaha, assessment accident company, were approved by Director Smrha. Congressman C. F. McLaughlin heads the list of incorporators. P. W. Downs, insurance man, also is interested, and a number of lawyers. It is understood the company proposes to sell coverage to attorneys by mail, similar to the two physicians' companies of Omaha, which have had unusual success.

## Mast Los Angeles Club Head

LOS ANGELES—Annual election of the Accident & Health Managers Club resulted as follows: President, W. E. Mast, Continental Assurance; vice-president, B. D. Williams, Connecticut General Life; secretary-treasurer, F. B. Alldredge, Occidental Life; directors, F. H. Dibble, Provident Life & Accident; L. M. DeWitt, Federal Life, and Joe Josephs, Ocean Accident.

## Opens State of Texas for Connecticut General Life



A. C. PRENDERGAST

A. C. Prendergast, well known fire and casualty agent in Dallas, has been assigned the task of opening Texas for Connecticut General Life. That company entered Texas last May but had not started to develop a producing organization in the state until appointing Mr. Prendergast just recently.

The appointment of Mr. Prendergast by Connecticut General does not interfere with his connections with the Travelers and other companies represented on a local agency basis for property and accident lines. Mr. Prendergast personally has been with the Travelers 17 years and was the first agent appointed by that company when it entered Texas.

## New Hoosier Auto Accident Policy

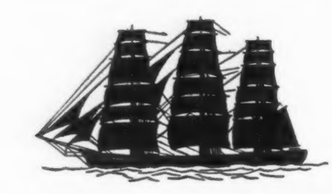
The Hoosier Casualty has introduced a new "superior" automobile policy. A $4 annual premium policy pays $10 weekly indemnity for total disability up to 26 weeks, $15 weekly hospital indemnity up to four weeks, $10 for doctor bills for nondisabling injuries, $500 for accidental death or dismemberment. The $7 policy pays $25 weekly indemnity for total disability up to 26 weeks, $15 weekly hospital indemnity up to four weeks, $10 doctor bills for nondisabling injuries and $1,000 for accidental death or dismemberment. Policies for $5 and $6 provide graded benefits between the two limits. For an extra $3 premium with medical, surgical or hospital reimbursement up to $250 can be secured and for a $5 extra premium the benefits are doubled. For $2 extra premium, $1,000 additional death or dismemberment can be secured with a total limit of $3,000.

## California Bars Policy Vendor

The California department has outlawed the installation of insurance policy vending machines in the state on the ground that the proposed 24 hour time limit in which the proposed contract was to be effective might create controversy; a question might arise as to whether the assured had paid premium and additional premiums could not be levied.

The ruling apparently came in answer to a request for approval of the system originated by Great Northern Life of Chicago, Rollins, Burdick, Hunter Company agency of Chicago and Insurograph Agency of Wichita, Kan. These interests have perfected a vending machine





for personal accident policies and have made half a dozen installations in Chicago in hotels and garages.

### Federal Life Help Get Free Cover

Federal Life of Chicago gave to its salaried employes a group life, health and accident proposition for Christmas. Federal Life is standing the entire cost. The A.&H. contract provides indemnity on a sliding scale based on the employe's earning capacity. Everyone is assured indemnity equal to two-thirds of his regular salary.

### Adds Medical Expense to Auto P. L.

United States Guarantee, through Rathbone, King & Seeley of California is adding medical expense reimbursement coverage to its automobile liability policies at an added premium of $5. The rider provides indemnity for medical expense up to $500 caused by injury to the insured or any dependent members of his family residing with him other than employes, as the result of an accident caused while boarding, alighting from or riding in the assured automobile.

# COMPENSATION

## Allred Inveighs at Texas Compensation

DALLAS—Following closely the announcement by R. G. Waters, Texas casualty commissioner, that the retrospective rating plan for workmen's compensation was available on an optional basis to Texas assured, Governor Allred in his farewell message to the legislature urged revision of the compensation law and suggested state compensation insurance. He condemned the present act, passed in 1917, saying compensation in Texas had "dismally and shamefully" failed in its purpose of protecting both working man and employer.

He held the industrial accident board to be blameless, as it annually passes on thousands of cases with a personnel of only 23 and awards to injured claimants more than they could obtain in court.

"The main trouble is with the law as there is no finality to the findings of the board," he said. The board's orders are not given the prima facie verity accorded to those of other state commissions, and because of defects in the law, he said, the commission has no standing comparable to that accorded similar boards in other states.

**Only Right Is to Sue**

"This defect in the law, seemingly, gives an injured worker or his family only the right to bring a lawsuit even after the case is made before the board," he said.

Governor Allred stressed lack of power of the industrial board to pass on solvency of an insurance concern and said it is too easy for irresponsible companies to operate in Texas. Governor Allred said if an injured worker is "able to stand off starvation" he finds too often judgment is given a concern in receivership or bankruptcy. "This condition, permitted by law, is little short of criminal," the governor said.

### Lawyers Lose Their New Monopoly in South Carolina

The South Carolina Industrial Commission has rescinded its amendment that was issued Sept. 19 requiring licensed attorneys at all hearings before the commission. The former practice is restored. Licensed attorneys are required only on appeal cases to the full commission. The ruling as of Sept. 19 was adopted at the instance of attorneys. The industrial commission found that this was a controversial matter and it decided to rescind the ruling.

### Oklahoma Order Is Upheld

OKLAHOMA CITY — The Oklahoma insurance board's order in 1937 reducing rates 7½ percent on workmen's compensation insurance, and providing for further hearings, has been upheld by the state supreme court. In action before the court, in which the Associated Industries of Oklahoma was plaintiff, the rate reduction was halted until the current action was taken. Now the board is free to resume hearings in order to determine final rates.

### Map New Mexico Law Revision

At the instance of Labor Commissioner Davis, amendments to the New Mexico compensation law are being prepared for submission to the legislature in January. One would eliminate the maximum compensation of $18 a week in event of death and would substitute a percentage of the wages.

**E. M. Allen,** executive vice-president National Surety, and Mrs. Allen are leaving this week for Hot Springs, Ark., for a vacation and will spend a couple of weeks taking the baths.

# Cost Questionnaires Are Now Released

(CONTINUED FROM PAGE 4)

branch or counter offices and all others, with an explanation required of the last. The same information is required of policies written in agency offices by Chicago metropolitan supervising agents, who must be designated separately, Cook county suburban agents, the number of which must be given, pools and associations and all others.

On business outside of Cook county, figures are called for on policies written in company owned office for survey agents, the company's own agents in Chicago and Cook county, other agents of the company, brokers housed by the company, other brokers, officers of the company and all others. Policies written in agency offices are divided into agents in Illinois excluding Chicago and Cook county, Chicago metropolitan supervising agents, designated separately, Cook county suburban agents, pools and associations and all others.

### Administration Expense

In each case, "all others" must be explained. The blank also calls for the percentage of administration expense separately for fire, windstorm and extended coverages and for miscellaneous coverages and must be signed by the chief executive of the company.

Included in the blank is an explanation of the various items. Mr. Palmer states that the location of the risk shall control allocation of information as to Cook county and outside, irrespective of the point of issuance of the policies. In case of automobile and inland marine coverages, the domicile of the assured controls. Where a company does not use the classifications "ordinary," "intermediate" and "preferred," and similar terms used by the Chicago Board and the Illinois Inspection Bureau, it may report under its own classifications.

In "allowances" Mr. Palmer includes salaries, bonuses, prizes, awards, entertainment, rent, heat, light, traveling, inspections, collection costs (not losses), advertising, postage, telephone, telegraph, express, office facilities, broker's license fees and other items in addition to commissions and contingent commissions. Under "administration expense," Mr. Palmer includes all office and field expenses except commissions, contingent commissions, allowances, all taxes, losses, allocated loss adjustment expenses, collection and credit losses and investment losses. He asks for a countrywide average percentage figure for administration expense, stating that ascertainment of an accurate territorial allocation would be difficult.

### Inland Marine Questionnaire

The inland marine information is not required to be on a blank, but the instructions state it must follow the prescribed order and form. Data is required on premiums and commission or brokerage on bailees' customers, bailees' liability, bridges and tunnels, cameras, deferred payments, merchandise, fine arts, furriers' customers, garment contractors, horse and wagon, jewelers' block, motor truck cargo, musical instruments, parcel post, personal effects and/or tourist's baggage, personal furs only, personal jewelry and furs, personal property floater (except scheduled jewelry, furs and fine arts), processing risks, radium, stamp collections, theatrical, transportation, wedding presents.

## Elections in Allstate

R. E. Wood, president of Sears, Roebuck & Co., has been elected chairman of Allstate and Allstate Fire. E. J. Pollock, vice-president and comptroller of Sears, Roebuck, becomes chairman of the finance committee of the Allstate insurers. P. B. Kelly is elected comptroller of Allstate.

# Casualty-Surety Interrogatory

(CONTINUED FROM PAGE 15)

In the state reports must be separately given for each branch or company office, giving location.

In addition, companies will supply the following information:

Do agencies individually listed report business to a general agency, branch office or company home office.

Indicate on each sheet reporting for a specific class or group of classes of business whether policies are issued by agents, branch office or company home office.

Full details of each individual arrangement whereby agents are allowed commissions in excess of acquisition cost rules, or for companies not subscribing to such rules, in excess of their normal commissions.

### Special Allowances

Full details of each individual arrangement whereby agencies of any grade or classification are made allowances for field development or any claim allowances, for office rent, clerk or special agent hire, supplies, telephone, advertising, traveling expense, entertainment or for any purpose whatsoever or in any form over and above regular commission allowances. The above shall apply to payments or allowances made through or by any affiliate or subsidiary of the company making reply.

Full details regarding contingent commissions, bonuses or quota allowances paid to agents.

If agencies receive general or regional agency commissions for certain classifications of business and regional or local for others, give details of each such arrangement.

Total amount of acquisition or production cost on business acquired through each branch office.

Give number of office agents or brokers housed in each branch or company office and rate of commission or brokerage paid to each on each classification of business.

Full details of commissions or brokerage paid through branch or company offices in excess of local agency commissions as defined in acquisition cost rules.

Totals of expense of operation of branch or company offices, other than commissions or brokerage. If jurisdiction of branch or company offices extend beyond Illinois, expense should be apportioned in the proportion that premiums in Illinois bear to total premiums in entire territory.

Give net premiums on business written through branch of company offices on which no commission or brokerage was allowed.

Did you during 1937 or 1938 apply equity or reduced rates to any class or classes of business at the same time reducing commissions allowed the producers? If so, how many such policies were issued on each class of business and what total volume of premiums was involved.

## Provident Life & Accident Extends Its Hospitalization

Adding hospitalization coverage upon an individual basis to its complete line of gronp and franchise hospitalization plans, the Provident Life & Accident, Chattanooga, now makes the coverage available to individual employed males and females.

This individual policy pays $5 a day for hospitalization for as long as 30 days in any policy year. Maternity benefits for a 10-day period are paid after the policy has been in force for 12 months. Under a schedule of operation fees, amounts varying from $15 upward to $75 are payable, as well as the usual coverages for anesthetics and operating room.

The individual hospitalization plan is known as the Paramount Hospital-Surgical plan. It is also handled upon the franchise basis for groups of less than 100, and upon the group plan where there are more than 100 lives involved.

## Labor Interests Involved in Attack on Adjusters

MILWAUKEE—Because the rights of union business agents might be jeopardized, counsel for the American Federation of Labor appeared in circuit court and asked that the federation be interpleaded as a party in the state's action to bar Abraham M. Rice, insurance adjuster, from the alleged illegal practice of law. Joseph A. Padway of Milwaukee, federation general counsel, will appear as a "friend of the court" in the trial of the plea of the Milwaukee Junior Bar Association for an injunction to restrain Rice who is charged with practicing law without a license in the adjustment of accident claims. The suit of the bar association will be contested, according to Eugene McIntyre, counsel for Rice who denied he is engaged in the practice of law.

In his petition Padway said he wanted to determine whether federation business agents, who appear before labor boards and the state industrial commission in behalf of union members and who are not lawyers, might be considered as practicing law.

## Seeks to Force Insurer to Repay Premiums State Paid

MINNEAPOLIS—Royal Indemnity and the Joseph A. Rogers agency are named in a suit for $178,904, filed in state court by A. D. Beidleman, as a taxpayer. He charges that amount was illegally paid as premiums on liability insurance to protect the state highway department from any damages resulting from the acts of its employes. The complaint declares no such liability exists, the state has appropriated no funds to carry such insurance and has not waived immunity from suit in any such claims. The period covered by the insurance dates back to 1931.

### Responsibility Bill for Washington

A financial responsibility bill will be introduced in the state of Washington legislature, early in the season, by Senator Shorett. This bill will have strong backing. It was approved by representatives of various organizations that attended a meeting called recently by the Automobile Club of Washington. The insurance men at that conference were J. W. Reynolds, president United Pacific; C. S. Shank, Northwest Casualty; S. G. Lamping, General Casualty; E. R. Bowden and Irwin Mesher, Insurance Agents League of Washington; R. S. Cunningham, Casualty Insurance Association of Washington, and J. R. Lawson, manager American Automobile.

### New Members in U. S. A. I. G.

Membership in United States Aircraft Insurance Group has been expanded to include Travelers, Travelers Indemnity, Travelers Fire and Springfield F. & M. New associate members of the syndicate are Michigan F. & M., New England Fire, Sentinel Fire of the Springfield group and Charter Oak of the Travelers.

Travelers was a pioneer in the writing of aircraft compensation public liability and property damage insurance. It started writing the business in 1919 and previous to that wrote some accident ticket insurance for private air passengers. In recent years, Travelers has not been an active writer of aircraft business although it has retained its membership in the so-called Aviation Underwriters board.

**Glen Thrush,** Columbus, O., fire insurance man, is father of a son named George W. Thrush, Jr., in honor of Mr. Thrush's father, the late George W. Thrush, who was active in fire insurance affairs in Ohio for many years.

## LATE FIRE NEWS

### Atlas Mutual Is Formed

The Atlas Mutual of Cincinnati has been organized to write a general automobile line. It is headed by A. W. Tischler, of Browning, VanDuyn & Tischler, investment brokers. Offices temporarily will be in the Union Trust building. C. C. Beals, formerly of the Ohio insurance department, is to be general counsel.

### Mrs. M. W. Mays Is Dead

Mrs. M. W. Mays, wife of the assistant director of the Business Development Office, died at her home in Jackson Heights, L. I., Sunday morning. She was the mother of a five week old daughter.

### U. M. Lelli Addresses Buyers

KANSAS CITY—How inland marine insurance plays a vital and essential part in modern manufacturing and transportation of goods was explained to the Insured Buyers Conference of the Associated Industries here by Urban M. Lelli, general agent at Chicago for Phoenix of Hartford. Because so much of today's buying is "hand to mouth," merchandise is moving in smaller quantities and in a greater hurry, Mr. Lelli pointed out. Consequently the hazard of getting it from seller to buyer has increased. Elasticity of inland marine, which enables the underwriter to write a contract to fit the individual needs of all businesses on floating property away from their premises was stressed by Mr. Lelli.

### Ohio Farmers Has Unique Party

The annual Christmas gift exchange and party of Ohio Farmers was held in LeRoy, O. Nearly 125 officers and employes participated. Words of felicitation were extended by President F. H. Hawley and Secretary J. C. Hiestand. Group singing of several carols was conducted by Mr. Hiestand. Gift exchange followed, each person receiving a present. Employes received a gift check from "The Old Man on the Fence."

### Name Prevention Week Winners

Report has been issued by the international committee of judges in connection with the Fire Prevention Week activities. This committee graded some 977 cities in the United States and Canada according to how well they observed the week. The cities making the greatest improvement in a single year are Boston, Quebec, Louisville, Cleveland, Ottawa, Can., and Camden, N. J. In each state winning cities are designated and some are given honorable mention.

### Cates, S.E.U.A. Veteran, Retires

ATLANTA—W. D. Cates, assistant to the chief engineer of the Southeastern Underwriters Association, Atlanta, has retired from active service. Mr. Cates began as an inspector in Virginia in 1910, later filling the positions of chief inspector and assistant secretary of the association. Executives and employes of the association were hosts to Mr. Cates at a dinner Dec. 28.

### Fischer Iowa Possibility

DES MOINES—C. R. Fischer, treasurer Iowa Home Owners' Mutual, left last week with Mrs. Fischer for Tempe, Ariz., where they will spend the winter. He was campaign manager for Governor-elect George A. Wilson of Iowa, and could have practically any state position he desired. He has been mentioned as the possible successor to Commissioner M. V. Pew, whose term expires Feb. 9, but announced he did not want any appointment.

Mrs. Ella E. Chapman, mother of **R. R. Chapman,** secretary at the New York head office of Corroon & Reynolds, died at her home in St. Paul at the age of 87. R. R. Chapman and Mrs. Chapman were there at the time, as they had gone to St. Paul for the Christmas holidays.

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# FIRE INSURANCE NEWS BY STATES

## MIDDLE WESTERN STATES

### Increase Shown by Detroit Association

Eighteen new members were elected at the December meeting of the Detroit Association of Insurance Agents. During the year 83 new members were added. President A. I. Dreifus praised highly the membership committee consisting of I. W. Blumberg, E. S. Karrar and W. A. Doyle.

Mr. Blumberg was nominated to be a director while W. B. Carry and Mr. Doyle, whose terms are expiring were renominated. The annual meeting takes place in January.

H. T. Stock, chairman committee of publicity and education, announced that the insurance courses at Wayne University will be given again this year starting Feb. 10.

The new gross earnings use and occupancy form was discussed by H. K. Hollister. A. M. Creed gave a talk on recent changes in jewelry and fur floaters and he announced that there is a chance now of getting the personal property floater authorized in Michigan.

### Rules on Sowers Plan Receivership

The Shawnee county district court has set the final date for filing claims against the defunct Sowers Plan Crop Insurance Mutual of Topeka as Feb. 1. The court has ordered that there be no set-off of claims for loss against premium notes owing to the company and that premium notes are negotiable and that their sale to banks and investment companies transfers all rights to such purchasers. The court has ordered an assessment upon all policyholders equal to the amount of the original premium.

Final audit by the insurance department, according to Joe Nickell, receiver, shows that with the collection of all premium notes and assessments, the company can pay 75 percent of all loss claims. Liabilities have been calculated as $320,479 and assets $232,752.

### Willard Jackson Honored

EAU CLAIRE, WIS.—W. G. Jackson, head of the Jackson Agency here, was honored at a testimonial dinner tendered by A. & J. H. Stoddart, general agents New York Underwriters, in recognition of his 50 years service here. F. W. Edler, Milwaukee, state agent, and J. G. McHale, field man, represented the company. Mr. Edler presented a gold engraved watch fob to Mr. Jackson.

### Form Mt. Pleasant, Mich. Board

MT. PLEASANT, MICH.—Organization of the Mt. Pleasant Association of Insurance Agents has been completed with election of officers: President, C. R. Carnahan, General Agency company; vice-president, R. D. Crapo, Crapo Realty Company; secretary, C. A. Potter, Potter Insurance agency; treasurer, John Bryan, Bryan & Little. A speakers' bureau is being formed. It was decided to start a cooperative advertising campaign and a public safety program.

### To Plan Minnesota Drive

MINNEAPOLIS—A meeting of the membership committee of the Minnesota Association of Insurance Agents has been called for the second week in January to discuss plans for an intensive state campaign. A. A. Hirman, Rochester, is chairman.

### Minnesota Situation Better

ST. PAUL—Minnesota has fairly well rid itself of unlicensed insurance companies. There remain a few that solicit in the state through newspaper and mail advertising but the practice has been reduced to a lower level than in many years. Soon after he assumed office, Commissioner Yetka launched a campaign against unlicensed carriers, concentrating his attack on a group of companies controlled by the Bean interests of Minneapolis. He gained several convictions. To curb out of state companies operating through newspaper advertising he appealed to newspapers to cooperate and found many sympathetic. A few large dailies continue to accept advertisements from such companies.

### Checking on Township Mutuals

ST. PAUL—A revised statement form mailed out to 150 township mutuals by the Minnesota department requires each to list villages in which it writes insurance. A new law permits them to write in villages up to 1,000 population, but recently there has been complaint they were writing in larger villages.

### State Roster Sets Record

MILWAUKEE—With action of the Racine Insurance Board to become coextensive, the Wisconsin Association of Insurance Agents has reached a membership in excess of 400, largest in history. John Seidel, secretary, announced a goal of 500 members by the time of the annual convention next fall, was set. President W. C. Thornton named Grover Miller, Racine, as chairman of the newly created state by-laws committee which will study revisions needed and report at the next meeting. Members of the state association and local boards were invited to attend the 75th anniversary dinner-dance and observance of the Milwaukee Board on Jan. 16.

### Owosso Reorganizes Association

OWOSSO, MICH.—The inactive Owosso Board has been reorganized as the Owosso Association of Insurance Agents as a result of a visit of Waldo O. Hildebrand, secretary Michigan Association of Insurance Agents. Officers are: president, Howard S. Taylor, Gilbert L. Taylor Agency; vice-president, Thane W. Neal; secretary, Gordon Nutson; treasurer, James W. Hahn, Cadwallader-Lord-Hahn agency; executive committee, Roy G. Spiess, Rollo A. Lord, Cadwallader - Lord - Hahn, and Gale Nutson.

A co-operative advertising campaign, a public safety program and Business Development program are being considered. A Shiwassee county association is also planned.

### Plan to Meet in March

MINNEAPOLIS—Tentative plans are being made by the Minnesota Insurance Federation to hold its annual dinner at the same time as the midyear meeting of the Minnesota Association of Insurance Agents early in March. This was done last year and worked out satisfactorily.

### Insurance Courses Required

The business administration college of Butler University, Indianapolis, is putting insurance courses on the required list in four departments of study. Heretofore these courses have been elective. In the accounting field, life insurance and property insurance have been made requirements. Life insurance, social insurance and property insurance is to be required of students majoring in finance; life insurance is to be required in the field of marketing and property.

### Muskegon May Insure Property

MUSKEGON, MICH. — Due to the straitened finances as a result of the 15 mill property tax limitation, Muskegon, may abandon its self-insurance plan. A special committee of the city commission has recommended that municipal property be insured. The total coverage to be placed on city property will amount to $580,700, compared to $68,000 which has been carried in the past on the city hall and city yards only. The policies will cover fire, windstorm, cyclone, explosion, riots and motor vehicles.

### Mortensen Addresses Agents

MARSHFIELD, WIS. — Commissioner Mortensen of Wisconsin was guest speaker at a meeting of the Wood County Association of Insurance Underwriters held here. A. C. Barnes, Marshfield, the president, was chairman. Mr. Mortensen discussed and explained the insurance department, functions and relations to agents.

### Stock Agents Win Winona Line

WINONA, MINN.—The city council has decided to insure the new city hall, now under construction in stock companies, at an estimated annual premium of $400 under a builder's risk form. The business is to be divided among local agents.

Among those who addressed the council in favor of stock insurance were A. Bruce Clark of the Clark & Clark agency, who said that 82 percent of all insurance in Minnesota is written by stock companies; A. M. Oskamp, Winona Insurance Agency, who averred that by buying the insurance from a mutual concern cooperative purchasing would be encouraged thus tending to eliminate the middleman; L. A. Slaggie, Gate City Insurance & Investment Co., who declared that because the agents of stock companies are building business as a whole in Winona they should be patronized, and Elmer N. Rietz, Central Insurance Agency, who, through Fred Dorman of the Minneapolis agency representing the Rietz companies, said that, although the mutual companies had offered a 40 percent dividend, acceptance of their proposal was inadvisable.

### Fronk Is New President

MANITOWOC, WIS. — At the annual meeting of the Manitowoc Board all officers were reelected: President, B. F. Fronk; vice-president, Joseph Wolff, and secretary-treasurer, Frank Vraney. It was decided to establish a new public properties insurance committee. The January meeting will be preceded by dinner, after which President Fronk will announce committee appointments and outline plans for activities.

### Extend Membership Liberality

ST. LOUIS—The executive committee of the Insurance Board extended to Feb. 28, the period in which new members and brokers can join without payment of the $100 initiation fee.

Since June, 50 new Class 2 agents and 67 new brokers enrolled. Total enrollment is about 750 members and brokers, the largest in history.

### Peters New Beloit Head

BELOIT, WIS. — F. M. Peters was elected president of the Beloit Insurance Underwriters' Association at the annual meeting, succeeding Chester Uehling. L. D. Bort was named vice-president and Mrs. Vera Sherwood reelected secretary-treasurer. Named directors for three years were J. F. Wussaw and Mr. Uehling.

### Nebraska Department Budgets

LINCOLN, NEB. — Director Smrha suggested to Governor Cochran, who has pre-veto power over appropriations for expenses of state government, that in fixing budget for the biennium beginning July 1, a limit be placed on the one for his department. Mr. Smhra said this would be sound finance and accord with modern trends. With the exception of $6,400 for the biennium out of tax funds for the commissioner's salary, all other expenses of department operation are paid out of fees. All fees collected have not been spent, Mr. Smrha said, as they were not needed to perform prescribed legal duties. State Fire Marshal Davis submitted a budget calling for $40,100 for the two year period, an increase over the sum collected for the current biennium. The bureau is supported by a special tax on fire company premiums. Presiding Judge Coffey of the workmen's compensation court asked increase from $40,000 to $60,000 for the biennium, all to come from estimated cash receipts.

### Suit Against Township Mutual Fails

Mere residence of a director with power to solicit insurance and collect premiums in a county does not make him a resident agent of a township mutual fire insurance company so that suit may be brought against it in that county. This was held by the supreme court of Minnesota in the case of State ex rel Clifford vs. Gislason.

In this case, the township mutual had its place of business in Nicollet county and held its stockholders and directors meetings there and all records of the corporation were kept in that county.

One of the directors lived in Sibley county and suit was brought against the company in that county, on the basis of his residence, although the loss in question occurred in Nicollect county. The court held that under the particular circumstances this director did not have any greater power than a soliciting agent and that the corporation was entitled to be sued in the county where its principal place of business was located.

### Middle Western Notes

**Arthur C. Nickell**, Waukesha, Wis., local agent, and Mrs. Grace Mullen, formerly publicity director of Carroll College there, were married.

**H. W. Davis**, former manager, and Byron Astle of the Fontron Loan & Trust Company's insurance department in Hutchinson, Kan., have purchased the insurance business and organized the Fontron Insurance Agency.

Harvey Zachow, former manager, has taken over the **Hackett Company**, West Allis, Wis., local agency, following the recent death of Mrs. Marie Hackett, who owned the agency since the death of her husband, William Hackett, six years ago. Mr. Zachow, associated with the agency since 1930 when Mr. Hackett became ill, will operate under the Hackett name.



# IN THE SOUTHERN STATES

## Program for Dallas Rally of Agents Announced

M. J. Miller, Fort Worth, Tex., chairman casualty and surety committee Texas Association of Insurance Agents, announced the program for the annual meeting of casualty and surety agents in the Hotel Adolphus, Dallas, Jan. 9. The program, starting at 9:30 a. m. is:

Greeting from President D. A. Clark, Sweetwater, Texas Association of Insurance Agents.

Greetings from J. W. Teagarden, chairman companies committee.

"Safety of the Highways," R. G. Waters, casualty commissioner of Texas.

"Selling Burglary Lines," (speaker to be announced).

Round table discussion of burglary lines.

"Blanket Bonds—Bankers—Commercial and Position," (speaker to be announced).

Round table discussion of blanket bonds.

Questions and general discussion.

Luncheon.

"Automobile Insurance Sales Aids, (Bodily Injury & P. D.)," W. T. Harper, vice-president and agency director, Maryland Casualty, Baltimore, Md.

Round table discussion of automobile insurance.

"Workmen's Compensation (Retrospective Experience Rating Plan—P.L.)," (speaker to be announced).

Round table discussion of workmen's compensation.

Questions and general discussion.

Adjournment.

## Assured Dead When Policy Issued, but Insurer Is Held

In the case of Dutton vs. Harmonia the supreme court of Louisiana held that a fire insurance company could not avoid payment of a loss on the ground that the assured was dead when the policy was issued after mailing a cancellation notice to the deceased assured, subsequent to having learned of his death and of the identity of his widow.

The assured had a mortgage on the premises and insurance had been written at the direction of the building and loan association in another company, the policy expiring in 1932. The assured died in 1931. The same agent wrote the renewal in Harmonia in the assured's name, neither the comany nor the agent knowing of his death at that time. A small loss occurred July 14, 1933, and the assured's widow filed a proof of loss, supplying information regarding the assured's death. Harmonia filed an interpleader suit against the widow and the building and loan association, admitting its liability and paying the amount of the adjusted loss into court.

Prior to filing the interpleader suit, but after receiving the proof of loss and notice of the assured's death, the company mailed a written notice of cancellation by registered mail to the assured, with instructions to deliver to the addressee only. The registered letter was returned to the company and it made no further effort to communicate with the assured's widow or legal representative. A total loss occurred in September, 1933, the company denied liability and suit was brought. The lower court held for the insurance company, but the supreme court reversed the judgment, stating that, having chosen to deal with the widow, Harmonia had waived its technical defense.

Another question involved was whether the amount involved gave the supreme court proper jurisdiction, since a minimum of $2,000 is required in that state. The insurance company maintained that, while the amount claimed was $2,115, there was a balance due the building and loan association of $1,298, making the amount in controversy between the assured's widow and the company only $817. The court, however, held that the entire amount of $2,115 was in controversy, since the company had denied its liability for the full sum claimed.

### J. A. Doggett Greensboro President

J. A. Doggett has been elected president of the Insurance Exchange of Greensboro, N. C. The board now embraces 27 member firms.

### To Require Greater Capital

OKLAHOMA CITY—Higher financial backing will be asked of insurance companies operating in Oklahoma in a bill to be introduced in the legislature according to Commissioner Read in January. The measure will apply to both foreign and domestic companies, requiring minimum capital $100,000 in stock or surplus. Under present requirements, Mr. Read said, a stock fire company can organize with $50,000 capital and write contracts the same as older, larger companies. Capital of $1,250 is sufficient for a small mutual to write accident and health. The requirement now is that capital amount to five times the maximum risk. He cited a number of companies that started with as little as $25,000 capital.

### Byron Is Nashville Director

NASHVILLE, TENN.—Charles E. Byron, of Charles E. Byron & Co., was elected director of the Nashville Insurance Exchange, succeeding H. H. Corson, of Davis, Bradford & Corson, who resigned because of other duties.

### Springfield, Tenn., Board Affiliates

The new Springfield (Tenn.) Insurance Exchange has affiliated with both the Tennessee Association of Insurance Agents and the National association. Semi-monthly meetings will be held.

### Tampa Agents Elect

The Tampa, Fla. Insurors Exchange has elected J. W. Warren, president; R. C. Rice, vice-president; L. A. Roos, secretary; J. B. Mynatt, W. E. Mitchell, W. H. Dismukes, W. L. Pearson, R. S. McKay, E. N. Crowder, W. J. Houlihan, directors.

### Agency Bookkeeper Held

L. E. Walton, long bookkeeper for the Sutton & Co. agency, Richmond, Va., charged with embezzling $15,000 funds of the agency, has been held in jail for action of the January grand jury. The alleged shortage was discovered following a fire which gutted the interior of the agency office.

### Goodloe New Florida Manager

J. H. Holmes is retiring as manager of the Florida Inspection & Rating Bureau. He is succeeded by R. P. Goodloe. Mr. Holmes has been manager of the Florida bureau for 19 years.

The Jacksonville Insurors Association honored Mr. Holmes at a dinner and presented him with a watch. Quinlan Adams, president of the association and former president of the Florida Insurance Agents Association, presided. George W. Mills made the presentation. Mr. Holmes retires after serving 32 years, 19 of them as manager of the Jacksonville office.

### Big New Orleans Fire Loss

NEW ORLEANS — Fire which caused $250,000 damage destroyed the Todd-Johnson drydocks on the west side. The Gulf King, coastwise tanker lying in Dock 3 loaded with 780,000 gallons of gasoline, was threatened for a time. Fire originated in the boiler room. The loss is covered by insurance. The company will rebuild.

### Estimate Refinery Loss at $900,000

NEW ORLEANS—Loss on the Southdown sugar refinery near Houma, La., owned and operated by the Realty Operators of this city will probably top $900,000. Whether the plant will be rebuilt has not been determined.

### Stark of Tampa Retiring

T. T. Stark, district manager of the Tampa office of the Southeastern Underwriters Association, is retiring. Mr. Stark joined the organization in 1905.

### Virginia Collection Increases

Companies licensed in Virginia, excluding county mutuals, which are not taxed, and fraternal societies, which pay only nominal fees, paid into the general fund $1,642,775 in premium taxes in 1938, an increase of $123,314 over the previous year. Approximately $50,000 additional was paid in agents' license fees or corporation taxes and fees not assessed by the department.

### Schenck & Mebane 10 Year Firm

The Schenck & Mebane general agency of Greensboro, N. C., is celebrating the completion of 10 years in business. G. A. Mebane, the president, has had 15 years insurance experience and E. M. Schenck, secretary, has been in the fire insurance business in North Carolina since 1911. The office has an agency plant of 175 active producers. It represents Atlas Underwriters Agency, Homeland, Homestead, Law Union & Rock, London & Lancashire, Orient and Union of Paris.

### Michigan F. & M. Oklahoma Setup

Michigan Fire & Marine announces the appointment as general agent for Oklahoma of the Robert L. Drake General Agency, Mercantile building, Oklahoma City. This new general agency replaces the American Agency Company of Tulsa, who have resigned their connection with the Michigan. The Drake agency also represents Globe & Rutgers and Fulton Fire.

Kammer-Delord, **New Orleans**, has been reorganized as Kammer-Delord & Code. Mr. Code formerly was vice-president.

# EAST

## Committees Named for Pittsburgh Day Program

PITTSBURGH — Committees have been appointed for the Pittsburgh Insurance Day program sponsored by the

A. W. PARDEW

Insurance Club of Pittsburgh Feb. 13. The chairmen are:

Reception, A. W. Pardew; publicity, N. W. Brayley; guest, P. C. McKnight; dinner, J. J. O'Donnell; floor, H. W. Schmidt; speakers, A. C. Supplee; entertainment, C. F. Flaherty; program, C. A. Reid; finance, W. J. Zwinggi; ticket, F. A. Meisel; door, G. E. Scaff; luncheon, R. H. Alexander.

For the day program the chairmen are:

General committee, W. C. Fiand; surety, A. A. Rohrich; casualty, C. J. Hammer; accident and health, B. F. Davis; engineers, M. W. Palmore; fire and marine, R. F. Miller; claim adjusters, P. M. Simmerman.

Charles H. Bokman is general chairman for the observance and Henry S. Bepler and E. W. Murphey associate chairmen.

### Miles, Forbes Are Named

BOSTON — Joseph Froggatt & Co., insurance accountants, has appointed L. W. Miles manager and R. B. Forbes assistant manager of the New England branch office in Boston. Mr. Miles was for some time assistant manager at New York and retains the title of assistant secretary. Mr. Forbes has been in the Boston office for ten years.

### Bepler Talks to Realtors

PITTSBURGH—Problems of writing fire insurance were explained by H. S. Bepler, general agent Virginia F. & M. and Manhattan F. & M., and past president Insurance Club of Pittsburgh, at a meeting of the salesmen's division of the Pittsburgh real estate board. He discussed the writing of policies, endorsements, rates, coinsurance and company liability. It was the first of a series of meetings on insurance subjects arranged by the group.



### Massachusetts Recodification Bill

BOSTON—A recodification of Massachusetts insurance statutes is provided in a bill filed with the legislature by Representative T. F. Coyne of Dorchester.

Another of his bills would give authority to insurance companies to invest 10 percent of their assets in low cost housing projects for a period of five years.

### Wills Honored for 25 Years

BENNINGTON, VT. — A silver pitcher has been presented Lieutenant-Governor W. H. Wills of Vermont, Bennington local agent, in recognition of 25 years' representation of the Great American fleet.

# COAST

### Surplus Line Body Annual Meet

The two divisions (northern and southern) of the Surplus Line Association of California are holding their annual meetings this week, one in San Francisco and the other in Los Angeles the next day. The San Francisco meeting was addressed by H. B. Haas, deputy insurance commissioner, who discussed some aspects of the stamping bureau that was established by the Surplus Line Association in November.

### Big Seattle Function Jan. 11

R. H. Ensign of John Davis & Co. is the choice of the nominating committee for president of the King County Insurance Association (Seattle). The annual meeting takes place Jan. 11. W. C. Meek is the outgoing president. B. B. Hillen is nominated for vice-president and O. L. Madison of Continental, Inc., for secretary. W. H. Harmer, Seattle agent, will serve as toastmaster at the banquet. Most of the program will be devoted to entertainment. Commissioner Sullivan has been invited. Ward Jennings is chairman of the nominating committee and Dick Reynolds heads the entertainment committee.

### Plan Series of B. D. Meetings

SEATTLE — Business Development meetings will be held in western Washington next year, as follows: Jan. 17, Everett, Centralia, Olympia, Bremerton and Kirkland; Jan. 18, Mt. Vernon, Longview, Aberdeen, Ellensburg, Seattle; Jan. 19, Bellingham, Vancouver, Pt. Angeles, Yakima, Tacoma; Jan. 31, Kirkland, Olympia, Bremerton, Everett, Centralia; Feb. 1, Seattle, Aberdeen, Ellensburg, Mt. Vernon, Longview; Feb. 2, Tacoma, Pt. Angeles, Yakima, Bellingham, Vancouver.

# CANADIAN

### Manitoba Pond Elects

The Manitoba Blue Goose met in Winnipeg and elected the following: Most loyal gander, R. J. Parker; supervisor, H. J. Scott; custodian, Hugh Ham; guardian, C. F. Schoales; wielder, W. G. Surtees; keeper, S. P. Cross; and chief guard, F. H. Steben.

### British Columbia Has Guest Law

The British Columbia legislature has an automobile guest liability measure taking the common-law right to sue from non-paying passengers.

Similar statutes are in effect in Ontario, Alberta and New Brunswick. In Quebec and Prince Edward Island the full right to sue is maintained. In Nova Scotia, Saskatchewan and Manitoba the claimant must show gross negligence or wanton wilful misconduct to claim liability indemnification.

### Smeall Goes to Winnipeg

H. M. Smeall of Montreal brokerage department Continental of New York, is leaving for Winnipeg to take over his new duties as special agent. He has been connected with the Continental group for 12 years in various capacities. Walter Glazin is Winnipeg branch manager.

### Drysdale General Manager

TORONTO — W. Gordon Drysdale has been appointed general manager of Anglo-Canadian Underwriters, which is closely connected with London Lloyds. He has had over 25 years' insurance experience, for the last 15 years being a director of Willis Faber of Ontario, and chief agent in Canada of the Sea.

### Transfer Evans to Toronto

William Evans, inspector of Great American group in Vancouver for two years, has been transferred as inspector in Ontario with headquarters at Toronto. The Great American has entered the casualty field in Ontario and Quebec through the Great American Indemnity, an affiliate. He joined the company in New York and has been inspector in several states of the Union.

### Cover Bridge for $2,500,000

British Columbia has insured the Patuelo bridge over the Fraser river for $2,500,000 against loss by fire or elements.

### Matthews Gets Urbaine

A. S. Matthews & Co. has been appointed British Columbia general agent for Urbaine Fire, which has been represented by Seeley & Co.

### J. C. Greig Resigns

J. C. Greig, manager of the fire insurance department of the Western Assurance, Toronto, has resigned.

# MARINE

## *Increasing Volume of Inland Marine*

NEW YORK—Fire companies, in casting up their accounts at the close of the year, realize that there is an increasing volume coming from inland marine business and less from the strictly fire end. Considerable business that has been written heretofore under fire contracts has switched to the inland marine department. In recent years there has been more creative work done along inland marine than any other line. The fire companies, therefore, realize that with the continuous reduction in rates on fire business and the transfer of a considerable amount of what heretofore had been fire to inland marine there is special need for the cultivation of inland marine insurance.

Therefore, in many offices officials are watching the young men up and down the line who have great promise and some of these are being switched to the inland marine end of the office to gain experience in that direction. Officials desire that these men know the inland marine contracts, coverages and more or less of the technical features of the business. Furthermore, they seek a combination of underwriter and salesman. There is a big opportunity, they say, for likely young men to develop in this field. In view of the fact that the inland marine premiums are increasing and the strictly fire business decreasing in volume, naturally every company is extremely desirous of building up its inland marine income. The officials realize that there is a big field ahead for inland marine, that creative men can develop business and that the coverages offered are appealing to people.

### Charge 2½ Times the New Rates

Practically all of the non-Inland Marine Underwriters Association companies are selling jewelry and fur policies at 2½ times the new I. M. U. A. rates. That gives them a competitive advantage inasmuch as the I. M. U. A. companies are supposed to get 2½ times the old and higher rates. The Mutual Marine Conference officially decided to use 2½ times the new rates and practically all of the non-I. M. U. A. stock companies are doing the same. This gives the non-bureau companies quite a talking point so far as price is concerned in connection with personal property floaters where there is a substantial jewelry schedule.

### Auto Club to Have Float

LOS ANGELES—The National Automobile Club, operated by conference insurance companies, will participate in the Tournament of Roses parade in Pasadena, Jan. 2, for the first time in its history. The club will feature the golden rule in its float, suggesting that should govern highway behavior.

### Clarify Status of Shawnee Mutual

COLUMBUS. — Some surprise has been caused by the news that Shawnee Mutual of Lima, O., has been licensed by the Ohio department. This is merely a formality, to keep the record clear. Shawnee Mutual has been existing under sufferance for about a year. It has been doing no business, since it was reinsured by Hartford Fire. Shawnee Mutual was organized to write the insurance on cars financed by the Colonial Finance Company.

### Insurance Men Best Paid

CHARLESTON, W. VA.—The state department of unemployment compensation reports the insurance business was the highest salaried industry in West Virginia in 1937, the annual average wage being $2,054. It employed 1,494 persons and paid total wages $3,069,366.

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Former Special Prosecutor, State Banking Dept., S. D.
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**MAURICE E. HIBBERT**
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# Year Has Been Kaleidoscopic

(CONTINUED FROM PAGE 15)

ductions were made upon a number of risk classifications.

Plate glass insurance experience was affected by the heavy claims resulting from the New England hurricane.

In view of the widespread demand for hospitalization coverage which has sprung up, bureau casualty companies have prepared two liberal forms of contract.

A number of large contract bonds were issued in connection with federal public work projects, and while the call for such indemnity has decreased in recent weeks, the prospect of road construction work in many states next spring is encouraging.

Bar associations in various centers continue their campaign to deprive lay adjusters of claim adjustment business.

During the year now ending was started an effort to clarify many aspects of resident agency and countersignature legislation and possibly to bring about uniformity in that direction. Much will be learned, it is expected, from the final decision in the case brought by member companies of the Association of Casualty and Surety Executives testing the Virginia resident agent law.

Although insurance code revision, which has been in controversy in New York for the past 18 months, would apply to this state only, it would influence the attitude of other states, which follow closely New York tendencies.

Many of the changes advocated by the codifiers have been condemned by the business. Many believe the New York authorities are committed to an underlying theory of regulating insurance in minute particular. They say that management would be placed in a strait jacket under the proposed code.

# Scans Reinsurance Problems in Accident and Health

(CONTINUED FROM PAGE 15)

the two years: Premiums, $6,183,793; losses, $6,465,920. Assuming that the premiums shown above netted 65 per cent, these companies sustained losses totaling more than $2,440,000, exclusive of all expense. In a more profitable time, such as the present, it is, therefore, incumbent upon accident reinsurance underwriters to anticipate as much as possible recurrence of such excessive losses. Accident reinsurance contracts, therefore, must necessarily be arranged to provide a reasonable profit to the reinsurer in order to build a cushion against less favorable times.

It has usually proved true that the experience of a reinsurer upon the accident business of a direct writing company has been several to many points worse than that of the reinsured because of the methods employed in reinsuring accident lines. The customary practice has been for the reinsured to retain all liability on each risk which does not exceed certain limits, reinsuring portions of only those risks which exceed these limits. Consequently, the reinsurer has participated in a much smaller number of risks than the reinsured, as it has been involved in only the larger cases. As a result, the reinsurer has had a much smaller spread than the reinsured, while being committed on those risks normally involving the greater moral hazard.

It is evident, therefore, that with a comparatively small spread upon the risks of any one reinsured company and with limits of liability often greater than the retentions of the reinsured, the loss ratio of the reinsurer over a period of years would be higher than that of the reinsured, especially during a depression period. It is for this reason that a reinsured company should not expect to make a profit on its reinsured business. In fact, it is often necessary to take a loss on this small portion of its business in order to obtain the necessary facilities.

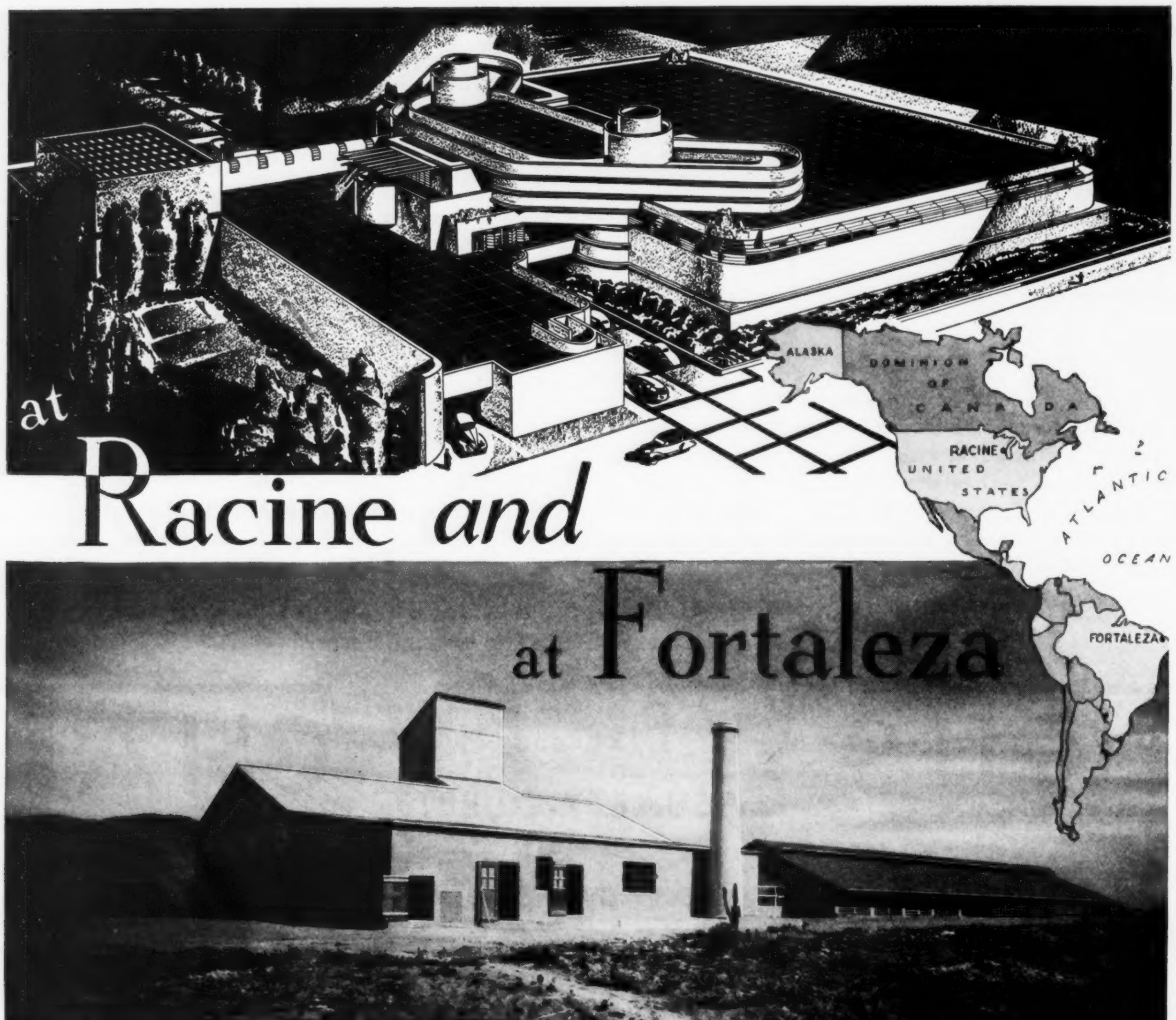
### Must Cooperate with Direct Writers

On the other hand, the reinsurance companies must, of course, exercise all possible initiative to improve their service on accident business. As an example in point, most direct writing companies provide lifetime indemnity for total disability as a result of accident and, except for the very largest companies, this is a matter of considerable concern to them. The possibility of loss under even a single total and permanent disability claim is tremendous. Present reinsurance facilities do not satisfactorily fill this need and it behooves the reinsurance companies to cooperate with the direct writers to work out an equitable plan to spread this remote but dangerous exposure or to limit it in some way.

As stated or implied above, reinsurance companies are vitally interested in all the provisions and terms of policy forms, as well as the adequacy of rate schedules of the companies to which they extend reinsurance service, because in many instances the reinsurer pays on a claim perhaps two or three times the amount for which the reinsured is responsible on its own account. The utmost confidence between reinsured and reinsurer should, therefore, exist. The underwriting and claims departments of both should at all times be in accord with regard to underwriting practices and underwriting procedure. Reinsurance companies should and do maintain experienced and competent underwriting and claims departments and in their reinsurance agreements make reasonable provision for underwriting data upon each risk reinsured. Often the reinsurer has an opportunity to render assistance, both in underwriting and claims matters, because of knowledge and experience gained through its contacts with other companies with which it has reinsurance contracts.

It is important that the efforts of both direct-writing and reinsurance companies be continued toward improvement of this highly important line of insurance by employing the knowledge and experience gained through the favorable as well as the unfavorable years in the past, to guide their future actions, following practices known to be sound and consistent, and looking to the welfare of reinsured and reinsurer alike.

**C. M. Herring, Jr.,** Newark manager of the American Fire and the American Indemnity of Texas, has returned from a two weeks visit at the home office.




Shown in the upper illustration is the new home office building of the makers of Johnson's floor wax at Racine, Wisconsin, designed by Frank Lloyd Wright.

From the leaf of the South American Carnauba palm comes one of the basic ingredients of S. C. Johnson & Sons' products. The lower picture shows their processing and refining plant at Fortaleza, Brazil.

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*This is No. 16 of the series, "'Round the World with the Royal-Liverpool Groups."*

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The NATIONAL UNDERWRITER



REINSURANCE NUMBER

THURSDAY, DECEMBER 29, 1938—Part 2

# The NATIONAL UNDERWRITER

December 29, 1938 REINSURANCE NUMBER Number 52—Part 2

# Fire Reinsurance Prospects Are Mixed

## LOSSES INCREASE BUT COMMISSION PRESSURE SUBSIDES

The impact of the jump in loss ratios that fire reinsurance companies, along with direct-writing carriers, have experienced this year is tempered somewhat by the consequent lessening of the ever-present pressure for higher commissions and by the hastening of the day when ceding companies will find that taking in each other's wash is becoming more costly than the orthodox system of turning it over to the professional reinsurers. Volume for 1938 will be down, probably around 4 percent for direct-writing companies and slightly more so for reinsurers. Loss ratios are from three to four points higher than the exceptionally good figures of 1937.

Whether reinsurance companies, in the aggregate, will show an underwriting profit or a loss for 1938 is a question which is so close that it would be necessary to wait until all the returns are in from all the companies in order to know whether to write the final result in black ink or red. The more fortunate, in spite of the New England hurricane, two big oil fires and the Glenmore distillery loss, will be on the favorable side of the ledger as far as underwriting results are concerned. Because of appreciation in security values, however, increases in surplus will be the rule whether underwriting proves profitable or not.

### Keep Watching for Break Up of Reciprocal Arrangements

Reinsurance executives have estimated that it would take two to three years of unfavorable loss ratios for direct writing companies to get thoroughly sick of reinsuring each other's surplus business. Shrinking premium volume and abnormally good loss experience have combined to make reciprocal arrangements exceedingly attractive to direct writing companies during the last few years. However, when higher loss ratios begin to offset the expense-ratio advantage gained by swapping reinsurance, direct-writing companies will, it is believed, seek to place their surplus lines with the professional reinsurers, thereby eliminating the obligation to receive back an equal amount of high loss producing business. Increased premium volume would also hasten the attainment of this result.

Another patch of silver lining in the loss ratio cloud is that heavier losses will tend to stem the tide of demands for rate cuts. The value of property insured against fire is probably 15 percent greater than in 1932 but the premium volume is approximately 17 percent less, largely on account of the cut in fire rates which were made voluntarily by the companies in order to forestall demands by supervising authorities. It is estimated that the average rate today is probably 25 percent lower than in 1932.

The average loss ratio for 1937 among direct writing companies was in the neighborhood of 44 to 45. This year it may run to 48. This would mean that reinsurance companies will be lucky to get off with a loss ratio of 55. Reinsurance expense ratios run about 43 or 45 so that the question of an underwriting profit is one involving very narrow margins.

Year-end estimates of outstanding losses are important and where the balance is close can readily make the difference between an underwriting loss and an underwriting profit. Settlements that turn out better than originally expected can make a considerable difference. Latest figures on the New England hurricane losses make it likely that when all the settlements are made they will run about 30 percent less than the original estimates.

### Heavy Losses Late in Year Wiped Out Early Gains

From a fire reinsurance standpoint the year 1938 looked very good for the first half but the heavy losses of the last half of the year will wipe out the gains of the first six months. The New England hurricane was a major factor in this picture though probably not one-third as much as if the same amount of damage had been done in a tornado-conscious region like the St. Louis area for example. Since the big gale, windstorm coverage has been sold right and left in New England but unless the inhabitants there have longer memories or another severe storm comes within the next dozen years or so, most of this rush of business will have slipped off the books. That is the experience even in areas where wind damage is a more or less familiar phenomenon.

Experiencing what is believed to be the heaviest loss in its entire history, London Lloyds was undoubtedly the hardest hit in the New England hurricane because of its excess of loss treaties covering many different types of risks—fire, inland marine, ocean marine, but mainly straight windstorm — almost every type of damage done by the storm. How much of a wallop Lloyds underwriters took in this disaster is something that a lot of insurance men would like to know. An estimate by a well informed source places the loss at between $7,000,000 and $10,000,000. In view of the fact that this is probably the biggest loss ever suffered by Lloyds, it is notable that they have not gone into a panic and jumped their rates.

### Factory Mutuals Had Recovery From Lloyds

In this connection, any gloating by stock company men over losses suffered by the mutuals in the New England hurricane, estimated at around $5,000,000, is not well founded. Much of this loss was protected by excess of loss coverage obtained from London Lloyds.

One reason why licensed professional reinsurers were not hit any harder than they were in the New England storm was that because of the favorable storm history of that section direct-writing companies kept their net windstorm retentions high and relied more on excess of loss contracts for the higher limits. Many of these treaties with Lloyds provided for net retentions ranging from $100,000 to $250,000, with excess covers to pick up in case of higher losses.

Because of the number and variety of losses in the New England hurricane, it will not be possible for Lloyds to close its books by the end of this year. At the same time, if direct-writing companies here are to take credit in their loss reserves for reinsurance from Lloyds, they must have cash in hand by the close of business Dec. 31. What will be done to take care of this situation is that Lloyds will send over a sum on account in accordance with reliable estimates of what their total liability will eventually amount to. Lloyds underwriters have appointed an accounting firm to audit claims and the work is being taken care of as speedily as possible but there is no way of getting all the figures in by the last day of the month.

The higher loss ratios of 1938 do not settle the question as to whether loss ratios are getting back to normal after a period of extremely favorable losses. Has 1938 been a fairly normal year? Or were the several years previous to it normal, and 1938 a distinctly bad year, judged on the basis of a new and more favorable normal?

Some believe the extremely low loss ratios that followed the onset of the depression were due to the squeezing out of moral hazard during that period. Advocates of this theory hold that arson became so unprofitable that its absence was a major factor in producing excessively low loss ratios. Consequently as normal business conditions return and moral hazard creeps back into the scene, it is to be expected that loss ratios will climb to somewhere near their old level.

### Another Theory Is That New Level Is Permanent

Others, however, hold that moral hazard has been a relatively minor factor and that the main cause of low losses is the real progress that has been made in fire protection, fire prevention, and fire fighting technique. They also point to the increased fire-risk consciousness on the part of property owners and others. This point of view would indicate that low loss ratios are here to stay with, of course, the usual annual fluctuations either side of the norm.

Which of these two views is correct is of considerable importance to regular reinsurance companies in this country. If low loss ratios are really here to stay, reinsurance companies can only resign themselves to a permanent diet closely resembling what they have been getting for the last few years.

### To Hope For Increases in Inventories Is Held Vain

For whatever it may be worth in this connection, it should be noted that except for big losses like the hurricane and a few others, the year was quite a good one. A year in which there are a few large losses hits the reinsurance companies harder than if the direct writing companies had the same experience on a more average size group of losses, for the big losses not only make it certain that the reinsurers will be brought into the picture but makes it probable that each reinsurance company will get several whacks from the same large loss.

The greatest boon to the reinsurance business would be a jump in insurable values, particularly buildings. This would bring about the eagerly wished-for goal of higher premium volume. Increases in insurable values through larger inventories is some-

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## CONTENTS

## REINSURANCE IS A BUSINESS THAT HAS ITS OWN TECHNIQUES

# Provides Field for Specialization

By ROY E. CURRAY, President, and E. D. OBRECHT, Assistant Secretary Inter-Ocean Reinsurance

History records the continual progressive development of our economic order but during the evolution distinctly retrogressive as well as progressive trends have always been discernible.

The development of reinsurance within the field of insurance has assumed significant economic importance, and in the field of fire reinsurance during the past few years there have also been many observable trends but whether they have been progressive or retrogressive is a matter of opinion. Several of these trends, although they may not be the most important, have drawn considerable attention and warrant analyzing.

### Fire Reinsurance Rates of Commission Have Advanced

During the last 10 or 15 years fire reinsurance rates of commission have advanced but it is our opinion that it is impossible to dogmatically say they are now too high or too low. Following a period of low loss ratios in the fire insurance business, during which period agency commissions and overhead costs have increased, it is inevitable that reinsurance commissions should also increase.

Reinsurance commissions, however, are not established by the same processes as agency commissions. Most agency commissions are subject to regulation; are uniform for all agents, at least of an individual company; and increases are usually the result of group pressure. Increased commission costs to a direct writing company are either passed on to the policyholders through higher rates or are absorbed through increased efficiency, improved underwriting, or generally more favorable loss ratios. Reinsurance commissions are not uniform but are the product of negotiations and agreements between companies, and theoretically at least, are based on the past and anticipated future experience of the business involved, with a reasonable profit allowed the reinsurers. In either case the results are the same since the higher costs must be absorbed, but the process of arriving at a fair rate necessarily differs.

### Sliding Commission Scale Is Commonly Employed

For many years it has been the custom of reinsurance companies to share their profits with direct writing companies by paying contingent commissions. Due to the recent favorable loss ratio a modification of this idea has developed in the use of the sliding scale of commissions. Under this plan an adjustment of the commission for a particular year is made at the end of the year, such adjustment being based on the loss experience during the year. This is of course just another way of paying a contingent commission, although both the sliding scale of commission and contingent commission are sometimes found in the same contract, which is rather difficult to justify.

In some contracts these adjustments apply to the premiums written and are governed by the ratio of losses paid or incurred to premiums written. In our opinion this type of commission adjustment is arbitrary and unsound because the reinsuring company is anticipating profits which may never materialize. There are, however, reinsurance contracts in which the adjustment of commission applies only to actual premiums earned and is governed by the ratio of losses incurred to premiums earned. It seems to us that this type of sliding scale of commission is sound and desirable.

Another result of the favorable underwriting record of the past few years has been the extension of the idea of exchange-of-reinsurance or reciprocity. This idea was accentuated by the reduced premium income of many companies during the recent depression. A smaller percentage of the total reinsurance is handled by strictly reinsurance companies in the United States than in Europe. As a consequence, more direct writing companies have found it necessary to develop reinsurance departments in order to furnish an adequate reinsurance market and this has made many direct writing companies reinsurance-minded. Hence, when premium volume declined reciprocal agreements increased. While this method of procedure may deprive a professional reinsurance company of some business, it has its advantages from the standpoint of the direct writing company. It seems to us that recently this trend may have been reversed, due in part to improving business conditions and in part to certain disadvantages which have become apparent.

Under exchange-of-reinsurance agreements it is theoretically preferable that the two companies operate in different territories. This is advantageous to each, since the spread of their business is increased. If the volume of reinsurance is small the expense of becoming admitted to new states may be relatively high. In actual practice the two companies have usually operated, in part at least, in the same territory. In such case they have not increased their spread, and in the event of a catastrophe loss may find they have not improved their situation at all.

### Hard to Get Identical Things to Trade

Another advantage of reciprocal reinsurance agreements is that the rate of commission is usually the same and both companies increase their spread without any noticeable cost except the expense of handling the business. This is true if the assumption is correct that the business of both companies is equally profitable or vice versa, but in case the business ceded by one company is more desirable than that ceded by the other the reciprocal agreement is usually terminated after a short trial. It is also true that commissions as well as expenses differ in various parts of the country, and it is usually difficult for a company to convince itself that a higher commission should be paid for business received than it secures in return from the other company.

The underwriting departments of direct writing companies are often inclined to spend as much time and expense in underwriting reinsurance offered by another company as if the risk were offered them by their agents. This may result in an increased expense ratio and at the same time develop friction between the parties, since there are various schools of thought regarding underwriting. Companies have different ideas regarding size of net lines and the desirability of different types of risks, and it is often difficult for the managers of one direct writing company to convince themselves that the wholly different underwriting methods employed by another direct writing company are sound. Also, expirations and other trade secrets are necessarily disclosed to competitors in this process which may in some cases be very disadvantageous.

A further disadvantage of this plan results from the fact that the managers of most direct writing companies are usually not as skilled in drawing reinsurance contracts and appraising reinsurance arrangements as the managers of the professional reinsurance companies. Reinsurance is a business of its own and has its own techniques. In repairing a car a mechanic is usually superior to a dentist; likewise a reinsurance specialist usually has the broadest comprehension of the ramifications of various reinsurance problems. Nearly every company has at least a slightly different reinsurance need which should be studied and analyzed.

New types of reinsurance contracts are always being devised and one relatively new contract form has recently received considerable attention. The so-called "Spread Loss Contract" provides for payment by the direct writing company of all losses up to a certain amount either on a particular risk or arising out of one loss event. The reinsurer pays all of the loss in excess of the direct writing company's net retention but not exceeding a maximum limit, with a further limitation on the amount payable in any one catastrophic event. For this protection the reinsured company pays a certain percent of its net premium income, the rate being based on its experience for the previous five years plus a loading of from 40 to 50 percent or even higher. These contracts are usually written for a five-year period and each year the rate is adjusted up or down according to the experience of the previous five years. There is also a minimum and maximum rate.

### Apparent Profits May Prove to Be Deceptive

Some contracts of this type have been in operation for a number of years and have been found by certain companies to be very adaptable. They reduce clerical work in the office of the direct writing company, provide automatic protection, and reduce the danger of loss because of errors and omissions.

Furthermore, a company is in a position to retain a larger share of its gross writings, which is the equivalent of increasing its writings. If its increased volume is sufficiently profitable the company may eventually increase its underwriting profits. Many direct writing companies look with envy at the total accumulation of small annual profits accruing to their pro rata reinsurers and believe that a spread loss contract will permit them to retain part of these profits. In some cases this is true, but a careful study of individual spread loss contracts discloses a very substantial loading collected by the reinsurer to cover profits, expenses, and unknown hazards. A factor of 100/60 means the loading for profit and expense is 66⅔ percent and a factor of 100/70 means the loading is about 43 percent. With this profit practically guaranteed the reinsurer ordinarily receives as large a net profit as under a comparable pro rata contract protecting the same volume of business.

### Reinsurer Must Be Compensated Rather Quickly

With spread loss protection a company actually increases its net lines and secures reinsurance recoveries for large shock losses within a given year but ordinarily will repay the loss within five years, plus a guaranteed profit to the reinsurer. Consequently, in the event of bad experience the reinsurer must be compensated more quickly than in the case of pro rata reinsurance. Although under any type of reinsurance the reinsurers must ultimately collect enough money to pay the losses and have left a reasonable profit, in accepting pro rata reinsurance a company is usually content to receive business on the same plan for many years without changing the rate of commission.

Under the spread loss plan the direct writing company is compelled to carry all of its own unearned premium reserve, and this is an important factor to a medium-sized company having only an ordinary surplus. In the United States where the unearned premium reserve is prescribed by statutes and considerable business is written for three- and five-year terms this is a very important consideration. On desirable business the direct writing company may easily have an acquisition cost as high as 25 percent or more and an overhead expense of from 10 to 15 percent. Nevertheless, it is compelled to set up a liability in its unearned premium reserve for the full unearned premium without deduction for commissions paid or expenses incurred. If the commission averages 25 percent and the overhead averages 15 percent, 40 cents disappears out of its surplus with every dollar of new premiums written.

### Plan Not Substitute for Pro Rata Reinsurance

The spread loss plan is not a substitute for pro rata reinsurance and does not give as much protection to the direct writing company in the event of a catastrophe. This is particularly true if the spread loss contract applies to individual risks. It is, however, true in any event, because spread loss covers invariably contain catastrophe limits, while there is no limit as to the amount collectible under pro rata reinsurance except the aggregate face of all reinsurance amounts ceded.

Companies usually secure spread loss contracts during good years and do not realize the burden they are assuming until they experience a bad year and find themselves with a five-year noncancellable contract. Furthermore, if unfavorable experience finally results in the termination of the contract the ceding company is faced with the herculean task of reviewing all of its individual risks in order to readjust its reinsurance to a pro rata basis.

In view of these conditions it is our conclusion that although this type of contract may be desirable for certain companies, each company should analyze its own problems and characteristics very carefully before considering the adoption of this kind of protection.

Following the San Francisco conflagration of 1906 excess catastrophe reinsurance contracts developed quite rapidly, but it is our impression that in the early twenties this type of protection was still practically unknown to many of the smaller insurance companies. Under this form of contract the reinsurer agrees to indemnify the direct writing company for all or a definite percentage of all losses, occurring as the result of a single catastrophe or combination of designated loss events on a number of risks, in excess of a specified net retention, but not exceeding a maximum limit of liability. The net retention of the direct writing company is usually considerably higher than under specific excess or spread loss reinsurance and the rate in most cases is fixed and not adjustable annually.

It is our observation that nearly all companies today carry some form of excess or catastrophe protection and that the necessity for it is quite universally accepted.

Any analysis of trends within the reinsurance field discloses certain undesirable as well as desirable features, but if the reinsurance business is to succeed, it must, as is true of any business, be prepared to meet the ever-changing need of its customers and furnish to the direct writing company the service which is best adapted to solve any problems that arise.

# How Reinsurance Is Organized

By ALFRED MANES

## Manifold Systems Are Found Throughout World

**This paper was prepared by Alfred Manes, insurance professor at Indiana University, for presentation at the recent Latin-American Insurance Congress at Santiago, Chile. It was written in Spanish. The National Underwriter arranged with Dr. Manes to have it translated for publication here. Dr. Manes was formerly visiting professor University of Buenos Aires and retired honorary professor University of Berlin.**

Reinsurance, ingeniously organized, makes it possible for even the biggest risk to be covered by insurance. It is difficult to decide whether reinsurance is of greater importance to the insured, to the individual insurance enterprise which insures directly, to insurance as a whole, or even to economics. At any rate, it is reinsurance which makes it possible for direct insurance to function, at least in so far as the coverage of major risks is concerned. Reinsurance is not only a technical means for the principal and direct insurer in all branches of insurance, but is also of commercial value, as it reacts favorably on the profits of the organization if properly used. Furthermore, reinsurance effects a miraculous combination and interlocking of the most varied types of insurance in all countries, to which additional reinsurance, retrocession, contributes to a considerable extent. There is hardly another phenomenon in the whole economic world to compare with the many-sided efficacy of reinsurance.

The term organization should be understood to include all kinds, forms, and systems of administering reinsurance all over the world. In regard to organization, one finds an astonishingly large variety of all thinkable forms which is not less manifold than those found in administering direct insurance fields. However, one does not find all forms in all countries at all times.

### All Systems Show Advantages and Disadvantages

All forms and systems show both advantages and disadvantages; there does not exist any form which is the best for all countries at all times in regard to all kinds of reinsurance. How could it be otherwise, since there is such a great variety of economical, psychological, technical, and social conditions in the world? Sometimes one, sometimes another organization will be the relative best; much depends on the mental conditions of the insurers of a certain country; whether they are essentially conservative or progressive, whether they are inclined to cooperate or to compete, whether the purpose to make profit is more prevalent than to promote human welfare, and whether the tendency of national isolation, or international cooperation is predominant. Lastly, the kind of organization depends upon whether highly qualified experts are available who, in reinsurance, perhaps are needed more than in other insurance fields. However, in no case is a form of organization as excellent as people who have a financial interest in it will maintain; nor is a form as bad as its foes or competitors would like to make the public believe.

In no case should the influence of the leading personalities be underestimated. History of insurance in many countries has proven that genial persons who manage a relatively poor form have more success than the insufficiently educated persons who manage the relatively best form; therefore reinsurance must promote insurance education.

The status of reinsurance in a country, its dimensions and importance, is not always congruent to the magnitude and importance of direct insurance, and vice versa. For example, in the United States life insurance and several other direct branches of insurance involves a much higher percentage than abroad. On the other hand, American reinsurance is still far behind the reinsurance of some much smaller countries. However, international comparisons in regard to reinsurance are rather problematical because of the frequent insufficient or incongruent statistics in many countries. Sometimes official statistical data are lacking or are incomplete; sometimes statistics of direct and indirect insurance are not at all separated from each other.

It may be a good method to be in near relation to foreign reinsurance companies during normal times of peaceful development and reliable international conditions of law, trade, commerce, and stabilized currencies. The same attitude may become rather problematical during a period of radical changes as to justice and law, considerably sinking value of currencies, hypernationalistic tendencies, or perhaps international anarchy. Therefore, it certainly will not be pure chance that within about the last decade there are more national reinsurance enterprises to be found than before. Sometimes reinsurance on a national basis has been used for other purposes than insurance, a fact not always in favor of insurance.

### Independent Reinsurance Is European Product

An outstanding difference exists between dependent and independent reinsurance; both may be found side by side in the same country; however, one or the other may predominate. The dependent reinsurance, which means reinsurance managed by direct insurance companies as a side-line, prevails in the United States. Independent reinsurance is administered by companies which are exclusively or almost wholly in the reinsurance business. It is a European product which came into other countries relatively late. American reinsurance experts often told us that they found it hard to make American direct insurers reinsurance-minded, so that they would prefer independent reinsurance.

In the United States, perhaps more than abroad, insurance companies prefer coinsurance instead of reinsurance. Maybe the result is often favorable. However, reinsurance shows a higher level of technic than coinsurance, being a primary limitation of risks; while reinsurance may be called a secondary limitation of risks. Such can be more specialized and carefully managed by independent than by dependent reinsurance method.

The answer to the question whether and to what extent a direct insurer should make use of reinsurance is similar to that to the question whether and how a manufacturer should use self-coverage instead of taking out real insurance; because an insurance company, no matter how big it is or how exactly calculated its financial structure may be, can also be exposed, although the possibility is remote, to such unfavorable accidents that the payments actually to be made differ from those on which the company has counted. The principal direct insurer who considers reinsurance superfluous logically would also have to support the opinion that a manufacturer does not have to have fire insurance, but may keep so-called self-insurance which is never real insurance.

### Practical Application of Formulas Is Rarely Found

But the question whether or not a tendency toward excessive reinsurance occasionally manifests itself is not out

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of place. This reinsurance may possibly be the result of an economic and financial power of a reinsurance enterprise superior to that of direct insurers. One cannot give an absolutely negative reply to this; however, it is naturally extremely difficult to ascertain in each case exactly to what extent reinsurance should be taken out, and which amount should be self-retained. Of course, there are many mathematical formulas which try to answer this question with the aid of statistics; but an application of these formulas which is practical is probably rarely found.

### Dependent Reinsurance Prevailed Until 1898

If the significance of reinsurance would be taught as thoroughly as salesmanship of insurance is, reinsurance would exist more extensively in many more countries. It is characteristic that no American book on reinsurance has ever been written. It happens that direct companies prefer dependent reinsurance, believing it may be more profitable to pool a risk than to have contact with an independent reinsurance company. Sometimes there is a kind of jealousy found in regard to pure reinsurance companies because direct companies have shown a higher quota of liquidations and failures than did reinsurance companies. It may be said that the fate of many direct companies would have been more favorable if they would have had more reinsurance. Sometimes direct insurers do not want to depend on a reinsurance company, especially if such a company is a foreign one.

Because of this and other reasons it may be explained that the dependent reinsurance was exclusively dominant in the United States up to 1898. Not before that year did a foreign reinsurance company open a branch office in the United States; and American reinsurance company doing general reinsurance business is not to be found before 1912. In American life insurance reinsurance cannot be discovered before the end of the world war. About 1918 some American life insurance companies opened special reinsurance departments. However, up to the present time in American life insurance, pooling prevails especially in connection with the jumbo-lines.

The role which independent reinsurance has played in promoting direct insurance can hardly be overestimated, even if it not always reached the ideal goals expected from it.

The enormous increase of modern insurance is mainly due to independent reinsurance. It is, above all, reinsurance upon which today, as well as in the future, new branches of insurance are dependent; reinsurance better than anything else can aid them in getting material life power.

### Variety of Organization of Independent Type

The great variety of its organization may be illustrated by the following table:

- A. Private Enterprises
  - 1. Individual Underwriters.
    - a. Isolated.
    - b. Cooperative.
  - 2. Mutuals.
    - a. Specialized or localized.
    - b. General.
  - 3. Stock companies.
    - a. Not governed by direct companies.
    - b. Governed by direct companies.
    - c. Founders or governors of direct companies.

In regard to A. 1-3:

Without, with limited and with unlimited state supervision.

- B. State institution.
  - 1. Reinsurance only purpose.
  - 2. Reinsurance as means to other purposes.
- C. Mixed enterprises
  - 1. Stock companies, shares of which are property of the state.
    - a. Exclusively.
    - b. Partially.

In regard to B and C.

1. Complete monopoly.
2. Partial monopoly.
3. Compulsory regulation of other kind.

In regard to A, B, and C:

1. National business.
2. International business.
3. Reinsuring only one or a few direct branches.
4. Reinsuring all kinds of direct branches.

(The various forms of reinsurance contracts, whether quota or excess treaties, etc., are not considered).

Obviously it would not be within the limits of this report to give all the details of all kinds of organizations which may have existed or still are in existence anywhere, and to discuss all their advantages and disadvantages. To do such work, it would be necessary to write a large book; however, even such a work could not offer a complete description because of the great difficulty in getting all the material needed. It is known that much of reinsurance is mostly administered by excluding publicity.

It may be sufficient to add a few remarks in regard to some facts of in-

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# Methods Employed Somewhat Haphazard

## CASUALTY WRITERS OFTEN PURSUE INCONSISTENT COURSE

By FRANCIS S. PERRYMAN

The reasons for the existence of reinsurance obviously include financial considerations, meaning by that, the necessity an insurance company has for protection against any loss that might be detrimental to its solvency, and considerations of convenience, meaning by that, the desirability of having large or abnormal losses spread out so that they do not all come together even if such large or abnormal losses do not jeopardize the company's solvency.

In the case of a casualty company, writing a variety of different classes of insurance, these considerations can be applied either to each class separately or to the company considered as a whole. Each class is often considered more or less by itself although there is no need to do so and usually, indeed, it will be advantageous to consider the business as a whole. As to financial stability there is no question—the company's solvency must be protected from any possibility of impairment. As to the application of any criterion of convenience there is more room for differences of opinion. Before discussing this further, let us look at the kinds of events against which reinsurance may be required.

### Cites Three Typical Events Against Which to Reinsure

The first and most common one in casualty business is the occurence of a single loss under a policy with high limits or exposure. Such a loss, while very rare will arrive and no man can say when or where. Another kind of happening to be thought of in connection with reinsurance is a natural catastrophe or man-made disaster that may cause more or less simultaneously a large number of losses under separate policies: such as may be caused by a windstorm smashing all the glass in a given area, or by the explosion of a building in a town resulting in widespread damage to other buildings. A third kind of cause of losses calling for reinsurance can be some abrupt change in general economic conditions causing widespread financial failures and defalcations giving rise to abnormally large bonding losses.

As regards casualty companies, the occurrence of isolated large losses is the most usual kind of shock loss thought of and against which reinsurance is taken. Casualty companies as an every day thing are called upon to write policies for large limits, and presumably, and actually, occasional large losses do arise under their policies. The kind of shock loss arising out of some catastrophe affecting many policies simultaneously is not so important in casualty as it is in fire insurance where, for instance, the conflagration hazard has to be reckoned with. Usually a series of losses resulting from economic changes affecting the whole of a class of business cannot from its nature be reinsured against practicably and the company's protection must be in its underwriting. Consequently we find that the reinsurance activities of casualty companies are mainly directed to the softening of the effect of, or the spreading out of, unrelated large losses, with comparatively less attention devoted to the taking care of multiple losses caused by natural or artificial disasters.

### Methods Employed in Reinsuring Are Haphazard

Both insurance and reinsurance consists of the spreading of risks but it must not be overlooked that this means the carrying of risks. The carrying of risks by insurance companies implies the prudent carrying of risks and if, as is, of course, the practical situation, insurance companies have to undertake individual risks which cannot be safely retained in toto, then reinsurance must be arranged. This involves the determination of how much a company can prudently carry and hence, how much reinsurance is required.

However, casualty arrangements are not usually founded upon scientific application of the theory of risks such as would be implied by the last statement. Reinsurance retentions and agreements are set up often by rule of thumb or from the experience and opinions of the officials in the company responsible for its safe running. As a natural result of these rather haphazard methods we often find companies being ultra conservative in some fields and the opposite elsewhere. Usually the error is on the side of conservatism, reinsurance being effected too freely. Justification for this, of course, can be found in the convenience criterion. It is, no doubt, comforting when a large loss occurs to know that there is reinsurance to soften the blow. However, most companies' experience will show had reinsurance not been placed so freely they have been financially better off in the long run.

Reinsurance can be secured either from a professional reinsurer such as a reinsurance company or a group of underwriters e.g. at London Lloyds, in which cases the professional reinsurer expects to and will make a profit, or by exchanging with other companies writing similar kinds of reinsurance. This latter method has the advantage of being in line with the idea of spreading risks but in many cases has more weighty disadvantages (or else how could the professional reinsurer exist), thus it is not so easy to arrange exchange of reinsurance and such agreements often involve more work and more trouble than does professional reinsurance. Also exchange of reinsurance with other companies is usually not easy to arrange for large amounts, as the receiving companies cannot afford to take too much of it which would mean they would have to pass some of it on to somebody else, whereas professional reinsurers are in a position to have agreements to take care of large amounts of risk that exceed their prudent limits. In casualty business, however, there are some types of risks involving large amounts, for example, bonds on enormous governmental projects or blanket bonds and burglary risks in connection with large banks for which large amounts of insurance may be required. Such large lines may require the utilization of all the resources of the direct writing and reinsurance companies.

### Little Need For Plate Glass Reinsurance

The fact that casualty business requires reinsurance arrangements to take care of single large policy losses tends to exaggerate the importance of such reinsurance and often the reinsurance agreements take care of the large losses (perhaps too well!) and pay little attention to other reinsurance problems. I have known of companies that would retain but moderate limits on liability policies, and would pay no attention to the inconvenience of the possibility of the occurrence of losses each under the limits of retention but amounting in the aggregate to a large sum of money.

It is not my intention to discuss in detail the usual types of arrangements for each of the various classes in the casualty business which includes so many different types of insurance. However, let us look briefly at the main classes.

Casualty companies write some two party property lines and we will look at those first. Plate glass is usually for a low amount of insurance and practically no reinsurance is used in this class. The only hazard to which this class is exposed so as to require reinsurance is the occurrence of such catastrophes as a hurricane bringing about wide-spread damage under policies covering in a wide area. Such forms of reinsurance are rare and unless a company has a large business concentration in one area probably are not necessary.

Then we have burglary, in respect of which there is quite a lot of reinsurance. Most of this is placed on a concurrent basis but excess reinsurance is beginning to become more and more common. There is a new and growing section of burglary tending to all risks where the reinsurance problems are rather different and akin to those in some sections of the fire business.

Another property line involving considerable reinsurance is found in the boiler and machinery coverages of the casualty companies. Ordinarily boiler and machinery policies have a not too large limit per accident that should not require a great deal of reinsurance other than some excess per accident cover. This is usually the way such business is reinsured although machinery business in particular has often been reinsured on a concurrent basis owing to the difficulty of setting a proper excess premium. However, concurrent reinsurance premiums require large commissions to leave the direct writing company with enough to provide the important inspection service. Use and occupancy boiler and machinery insurance is usually reinsured on a concurrent basis. One of the difficulties in the boiler and machinery business is the existence of a number of big risks. Unfortunately from the point of view of reinsurance, and perhaps even from the point of view of the proper interests of the business, boiler and machinery coverage for enormous amounts on large risks is becoming more and more common; modern boilers and machinery are constructed in more and more valuable units and the larger factories need use and occupancy insurance in enormous amounts, and such covers involve a real hazard as contrasted with the rather nominal one in say a public liability policy for a million dollar accident limit. The proper handling of such insurances for what are in some cases astronomical amounts involves peculiar difficulties both as regards the premiums and the reinsurance arrangements.

### Special Reinsurance Problem in Bonding Line

Another class of risk written by casualty companies is bonding business which has its special reinsurance problems. Reinsurance here is mostly on a pro rata or concurrent basis although there are some forms of blanket bonds where excess of loss reinsurance could be utilized if available. Bonding is another section of casualty business where large policies arise for which often special reinsurance arrangements have to be made—for example, large contract bonds covering enormous federal construction work. Another of the difficulties of bonding reinsurance is that the handling of reinsured bonds is complicated by the existence of the reinsurance: the necessity for frequent consultations with reinsurers and the time taken to reconcile divergent views detract from prompt action. The bonding business also affords examples of nonscientific use of reinsurance principles; companies underwriting their own business very carefully, carrying but low retentions and giving away a lot of excellent reinsurance, in exchange will take some other company's reinsurance of a distinctly lower grade, presumably in compliance with the spreading of risks theory. The results of the bonding business show marked changes from time to time often in step with general economical conditions. The business might be greatly helped if it were possible to devise means, by reinsurance or otherwise to spread the hazards of the poor years over the entire cycle. There is some evidence of the business awakening to the need of this. In bonding business as well as in burglary business there is a growing tendency to use coinsurance rather than reinsurance for certain types of risk. This was stimulated by the uncertainties of the depression years and the reluctance of the stronger companies to rely on the reinsurance of the weaker companies.

FRANCIS S. PERRYMAN

**Francis S. Perryman is secretary and actuary of Royal Indemnity and Eagle Indemnity and is in charge of their reinsurance. He is the new president of the Casualty Actuarial Society.**

Accident and health is, of course, quite different from any other kind of casualty business and its reinsurance questions consequently present some distinctive problems. Practically all reinsurance in these lines is on a pro rata or concurrent basis. Naturally it is in respect of the larger risks that reinsurance is sought and on these large risks the experience has proven unsatisfactory. This was particularly pronounced during the depression years and it would seem that companies have learned the lesson and are much more cautious in granting large amounts of insurance. Many reinsurance companies insist that they will not take a part of large risks unless given a share of the smaller risks. Accident business in recent years with the introduction of conference forms has materially improved and so has the desirability of reinsurance from the point of view of the reinsurer. Even with low policy amounts accident business runs the risk of large life indemnity claims which are annoying to handle not only because of the large amount but only because payment is spread over a long duration. Non-cancellable accident and health insurance will not be considered here.

We come now to the bigger classes handled by casualty companies which make up the greater portion of their business, the liability and compensation lines. We can readily dispose of automobile collision insurance as there is not

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# Less Confusion in Aviation Reinsurance

## EXHAUSTING OF WORLD FACILITIES NOT AS IMMINENT AS IT SEEMED

Exhausting of world reinsurance facilities by the increasing size of commercial aircraft now appears less imminent than it did some months ago when designers were turning their imaginations loose and 100-passenger planes were considered merely the prelude to something really big. For a time it looked as if the day would soon be at hand when the world market would be insufficient to cover the enormous values of ships that were being projected.

Even now, with values on some ships running up to $750,000, a considerable share of the reinsurance has to be shopped around facultatively abroad in addition to the regular reinsurance treaties in force with Lloyds. However, the trend to big planes has slowed down sufficiently so that it now seems likely that aviation reinsurance facilities will keep pace with the growing demand for higher limits.

### Commercial and Military Advancements in Close Step

More significant than any other factor in this country in making more gradual the progress toward the super-colossal liner of the air is the change in attitude of the U. S. Army. Advancements in commercial aircraft and military planes march closely in step, particularly where the big planes are concerned. The army can afford to spend heavily for experiment and development of new types of planes and motors. The lessons learned can be applied, at a fraction of their original cost, to the construction of commercial aircraft. This in turn, is all to the army's advantage, for it means that more and better facilities will be available to produce the type of ships that the army would want in volume if there should be war.

An outstanding example of this type of cooperation between the civil and military sides of aviation is the new Boeing "Stratoliner." This is the commercial version of the army's "flying fortress."

Just recently, however, the army has switched its allegiance from the development of larger and larger planes to the speedier, more versatile type of ship for which it has coined the name "attack bomber." This plane, with two motors instead of the flying fortress's four, is, of course, much smaller than the 16-ton flying fortress.

### Army's Emphasis on Speed Damper to Size Enthusiasts

The new attack bomber, it is expected, will have a speed of close to six miles a minute, or very nearly as fast as the latest type pursuit planes. The army's emphasis on speed rather than size is something of a damper for the hopes of those who looked to the military branch to lead the way in the development of larger and larger transport planes. The superior speed of German military aircraft as compared with planes of other countries has come in for increasing attention as Germany has become more and more of a threat to European peace. The U. S. Army's swing toward speed rather than size and armament has undoubtedly a sound basis in any realistic view of modern air warfare but it also puts an important chunk of money and technical brains into a type of research where commercial aircraft has less to gain.

The reinsurance problem in aviation insurance presents itself when the prototype of a new model is about to be test flown. This ship, naturally, costs more than will successive ships, usually at least 25 percent more even though the cost of plans, designs, jigs, dies, and the like would not be destroyed in the event of a loss and hence are not properly insurable. Prototype planes now under construction or tests run as high as $750,000.

Since values on standard models after they are in production are less than the first ship of the model, the problem of obtaining coverage is less. Also, most major airlines do not carry crash coverage except in some modified form, such as excess over aggregate, where the insurance does not take effect except in the event of aggregate losses exceeding a very high amount. This is not the same as catastrophe coverage, as the losses do not need to occur as a result of a single disaster.

Because of increasing values it is likely that there may be greater popularity of this excess over aggregate coverage as well as interest in it by some airlines which now self-insure entirely.

While it might be supposed that insuring of manufacturers would be relatively trifling as compared with possible airline coverages, actually the manufacturers' business is considerable and eagerly sought. Test flying of a big, new plane may take a good many months, while major and minor adjustments are being made to iron out the "bugs." Even after the design is perfected and standardized, there is the coverage on each ship as it is tested and delivered to the airline which is purchasing it.

### Limits Per Seat Run from $25,000 to $50,000

What the airlines do not self-insure is passenger liability. Because of the fact that a passenger, during the course of an air trip, may travel on planes of two or more lines, the operators are careful to protect themselves against the possibility of being liable for the other line's accidents. The lines' association, as a condition of membership, specifies that member airlines carry high limits of passenger liability coverage. Limits of passenger liability are anywhere from $25,000 to $50,000 per passenger seat.

The bigger ships, though entailing the possibility of wiping out more people in a single crash, will probably be safer than the best present day planes. They will embody all the improvements that are continually being made and their larger crews will permit each member to do his job under less of a strain.

While the passenger liability limits involve larger potential losses than the hull coverages, reinsurance in the liability end presents less of a problem than with the crash hazard.

While somewhere between $500,000 and $750,000 represents the maximum present valuations on even the largest ships under construction or tests, the big dreamed-of designs which would carry 100 passengers in transatlantic service would cost somewhere between $2,500,000 and $3,000,000. However, it would be four or five years before insurance would be needed to cover these ships and possibly the trend will have flattened out so that airline operators will standardize on ships of the size and type now plying the Pacific.

### Big Ships Are Not Cheaper to Operate

For while it is true that big ships are faster, more luxurious, have greater range, and because of their bigger crews are safer, they are not cheaper to operate than planes currently in use. Another disadvantage is that they do not lend themselves so well to flexibility of service. A larger number of planes of the type currently in use could much more readily be adapted to varying traffic conditions than could a smaller fleet of air mammoths. The smaller planes are also conducive to frequency of schedules. It may turn out that this latter item, combined with greater flexibility of service is more important than the admitted luxury and spaciousness of the planes capable of carrying 100 passengers and more.

There are three aviation markets in the United States: Aero Insurance Underwriters, Associated Insurance Underwriters, and U. S. Aviation Underwriters. Each represents a group of companies for which it acts as underwriting manager in the aviation insurance field. When one of the markets receives a hull risk which is beyond its capacity to absorb, it customarily offers the remainder to the two others. However, in liability coverages it is not customary to share business in this fashion with the other two groups.

Aviation reinsurance treaties with London underwriters are negotiated on the usual straight participation basis and also on an excess of loss basis. These treaties, together with the retention of the member companies of the pool, determine the capacity of each of the three local markets. The exact capacity of each group is a closely guarded secret. However, assume that one of the markets has a $200,000 capacity among its members and through its London treaties. Let us say that a $500,000 risk is offered to it. The managers of the office in New York can cable London and have its representative place additional facultative reinsurance on the $300,000 surplus or it can arrange, say, $200,000 facultatively abroad and place $50,000 with each of the other two American markets.

The insurance that is placed facultatively, either abroad or in this country, is usually not on an excess basis for this would result in an unduly small premium in a transaction which is already sufficiently unattractive to the underwriter who takes an oversize aviation line but rarely. Frequently London underwriters with treaties will accept larger amounts facultatively. For example, an underwriter already committed to a $10,000 share in a certain plane may take an additional $40,000 facultatively. The fact that leading aviation underwriters in the London market are on a risk for substantial amounts, of course, makes it easier to sell slices of the surplus to other London underwriters who do not customarily take aviation business.

London reinsurance facilities include aviation insurance companies, such as Aviation & General and British Aviation Insurance Company Ltd.; London Lloyds underwriters doing an aviation business; and finally, Lloyds underwriters not customarily taking aviation insurance. What the proportion of the last-named group bears to the second is difficult to say and would vary greatly according to crash reports of the previous few weeks, for the non-aviation underwriters who will occasionally take an aviation risk shrinks markedly in number when there has been a bad experience during the recent past.

If aviation expands as a healthy gradual growth, not getting into the ultra-large plane field before it has securely proven its worth in the intermediate sizes, there is no reason why it should be any more difficult to obtain coverage on a large airplane than on, for example, the Queen Mary, up to the limit of underwriting facilities determined not on a basis of taking a chance but on actual measurement and rating of the risk. Of course, the Queen Mary exhausted world insurance facilities and part of the risk had to be assumed by the British government. However, the lack of insurance facilities was due not to lack of faith in the builders and operators of the Queen Mary but to such great concentration of risks and size of values that every available source of insurance was strained to its utmost.

### Missionary Work Is Needed on Ultra-Large Risks

Much the same factors will govern the trend toward increased size in transport planes as govern the reinsurance market for the planes and their liability hazards. If it is safe and economically sound to build ever-larger planes, reinsurers here and abroad will get used to the idea. As things stand now a plane as big as some of those already built will immediately exhaust all three Amer-

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# Casualty Reinsurance Closes Another Banner Year

More fortunate than their fire reinsurance colleagues, casualty reinsurers are closing a year which, with the exception of burglary premiums, should come close to equalling the banner year of 1937, when two of the leading carriers achieved new highs in premium volume and several others came within an ace of doing so. Loss ratios have also been pleasing. In the one line that is the exception to the rule of sustained or increased premium volume the drop has been pretty well made up by moderate increases in other lines.

There are several reasons why burglary business is off: decreased rates, invasions by householders comprehensive policies written by inland marine companies, where states permit: and the dropping of burglary coverage by smaller banks relying on bankers blanket bonds to include the burglary hazard.

### Lower Rates May Cause Increase in Retentions

Falling premium volume in any line means that a good many sizable risks are involved, which in turn means that the reinsurer participating in these larger risks suffers a greater percentage drop in premium on the line than does the direct writing company. Also, lower rates sometimes cause the direct-writing company to increase its retention, so that the reinsurer loses premium volume two ways.

The unpleasant phase of the burglary picture is that the full effect of competition from bankers blanket bonds among the small banks has not yet been fully absorbed. It will not be until next year that the drop in premiums due to this cause can be viewed as definitely in the past. The slump in burglary business from small banks is somewhat offset by the hope that there will be an increase in fidelity business among banks which have not previously carried burglary coverage. The temptation of banks to drop their burglary coverage when taking bankers blanket bonds is quite strong.

### General Loss Ratio Will Show Improvement

The general loss ratio should be slightly better for 1938 than it was for 1937. Commissions to direct writing companies are not the problem in the casualty side of the business that they are in fire reinsurance, nor does the swapping of business among direct writing carriers loom anywhere near as large as it does in the fire field.

Competition is still severe and the acquisition of new treaties is extremely

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# Ceding Wisely Produces Peace of Mind

By R. H. ERICKSON

Reinsurance in all its phases is practically as old as insurance itself. The purpose of reinsurance is to secure an average distribution of liability on all lines; the perfect example of average distribution is given us by the Chinese hundreds of years ago.

In the fall of the year, on the Yangtze river in China, the Chinese freighters were confronted with a serious problem in that the river was full of rapids, and a trip to the city extra hazardous, as one or more boats were usually lost, thus depriving the Chinese merchant of his stock and materials as well as the year's profit of his labor.

**Cargo of Merchant Was Divided into Several Units**

The Chinese developed the simple system of dividing the cargo of the merchants into a number of shipments, thus if 25 boats went down the river and one boat was lost the merchant lost only one-twenty-fifth of his cargo instead of it being a total loss. Our insurance companies have developed their line books on this same principle, basing their average on the past record of the classes of risks. This average can only be maintained by purchasing reinsurance.

The simplest form is facultative or optional reinsurance. Facultative reinsurance is individual reinsurance on an individual risk. The method of securing such reinsurance is simple (providing the risk is acceptable). The placer for the insurance company will visit a reinsurance company, or any direct writing company, taking with him his daily report, inspection and credit reports for the perusal of the reinsurer. The reinsured company will receive a binder on which is stated the coverage, the amount accepted, the identical net retention, and usually the office retention or over all retention is stated on the binder. The assured's name, location, and effective date is also made a part of it. From that moment the reinsurer is liable for his pro rata proportion of any loss. The transaction is completed by the issuance of a reinsurance certificate on receipt of forms from the reinsured company. The reinsurance thus obtained usually remains in force until the expiration of the policy.

A form of facultative agreement is sometimes made between companies ceding business to a reinsurer, or to each other, which covers the renewal of a certificate for the same amount for a period of 30 days after expiration, also the canceling and rewriting of a policy for the same amount at same location.

Almost all insurance companies regardless of their treaty facilities use facultative reinsurance at one time or another. Treaty line limits, and treaty limitations on certain classes make this necessary.

During the past two years we have noticed that larger lines and authorizations to agents are again in order. Many companies call upon the reinsurer for their maximum authorizations on risks in order to include this added capacity with their own. This is particularly true of the smaller companies, as it enables them to compete with the larger fleets.

The reinsurer comes in contact with many companies, thus gradually becoming familiar with their methods of operation, lines and business. Our acceptance of risks is based upon our own line sheet, waiving retentions but, using the retention of the other companies as a guide. If the normal line of the reinsurance company on a machine shop is $5,000 and the originating company is writing $5,000 on that risk we will accept our normal line. If, however, they are writing $2,500 on this risk our acceptance is graded accordingly, as there must be some unfavorable factor or special hazard in connection with this risk. Likewise if they are carrying $7,500 on the risk where their normal retention is ordinarily $5,000 then our line is stepped up accordingly. It is only by knowing the various underwriting principles of the companies that we are able to underwrite our own acceptances and retrocede accordingly. Using the machine shop for example again, one company may write only $1,000 net whereas another company may write $20,000 net on the same risk. This is predicated by their own record on the class or the company's method of underwriting.

Ordinarily we do not receive much preferred business. Consequently our writings of the so-called accommodation classes must be held to a minimum in order for us to maintain our own average.

After a large fire or catastrophe we are usually offered considerable business of the type involved. Such was true of the Chicago Stock Yard fire in June, 1932. After this loss it seemed that all companies reunderwrote all stock yard business, and a considerable amount of reinsurance was offered. We are sometimes obliged to curtail our writings in heavily congested districts due to the fact that so much business is ceded to our treaties from so many sources that the addition of a facultative line would not be sound underwriting. For this reason it is impossible for us to accept a line on whisky in the large warehouses or distilleries. We will, however, write the class on smaller distilleries where the line is closely held.

Operating solely as reinsurers we have several advantages. A line once accepted will not be canceled at a later date due to our receiving a direct line. Many companies are zealous of their methods, lines, and expirations preferring to place their excess business with a reinsurance office, as they are not their competitors in the direct writing field. Reciprocal reinsurance agreements among direct writers while active during low premium periods are usually forgotten when business gets better. The company ceding a road house will usually be asked to write an unprotected elevator in exchange, the result being the companies having two accommodation lines on their books instead of one. The exchange usually is one sided both as to losses and premiums, and is another cause for their being gradually voided.

"Therefore cede wisely and so find peace of mind."

R. H. ERICKSON

**R. H. Erickson, the author of "Ceding Wisely Produces Peace of Mind" is general agent western department for General Fire of Paris and Skandia.**

# U. S. Is Mighty Good Place in Which to Do Reinsurance Business

By W. J. LANGLER

"Coming events cast their shadows before them," is a common enough quotation and "profiting by the experiences of others" is another. In the latter respect, the English have trod in advance of this country many of the paths which are opening up today on this side, particularly with respect to condensed reports of reinsurance and that ominous cloud over treaty companies, reciprocity. Fortunately, the English insurance magazines have on their staff or as contributors writers that really know the technicalities of reinsurance, its importance and its tribulations and can write expertly and frankly upon the subject and its current running-mate—reciprocity.

Along these lines there have appeared in the English magazine, "The Policy," issues of Oct. 6th and Oct. 20th of this year from the pen of a man who signs himself "Veteran" and who the editors identify in this way,—that he "was a well-known reinsurance broker who has had considerable experience of company management," some extremely interesting observations on the results of foreign reinsurance operations and on the subject of reciprocity. Starting with his original letter appearing in the "Policy" of Oct. 6 let us examine some of his comments. He first remarks upon the confusion which was created in 1914 by the fact that much reinsurance was with Austrian and German companies and its replacement where and when it was possible and then he says:

"It is a well-known fact that without reinsurance facilities fire insurance especially as it is carried on today could not exist, for the essence of insurance is reinsurance. Every insurance manager knows that."

He mentions the mushroom companies which sprung up to meet the conditions and how they met an early death, "the principal mourners being the unfortunate shareholders."

Then follows the question of what to do and notice please what he says about reciprocity:

"Shall the fire companies do as the life companies do—take in each others washing? To do so would be highly dangerous and to the writer's mind could only be done 'facultatively,' for if by treaty any company man knows that he might be saddled on any one risk beyond his company's limit, and if the whole of his excess business were to be done facultatively, it would mean a greatly extended staff and would be economically impossible. What about the U. S. A.? One would think that in that country there would be a grand field for reciprocal treaties. But here again difficulties arise. British companies are firmly entrenched in the U. S. and by taking cessions from American companies they would seriously embarrass the management of their offices located there. Yes, but could we not give them our treaties without reciprocity? No, for that would mean a serious fall in the premium income of the British companies, for reciprocity up to now has unfortunately meant the doom of the purely British reinsurance companies."

As a solution he suggests that the "great tariff companies" form a reinsurance company of their own. Let us quote him again:

"Let them form a reinsurance company of their own with adequate capital. Let there be no shareholders outside the companies themselves and thus all unprofitable treaties (and there are many of them) would be rejected. The 27½ commission usually charged for ceding a treaty could be revised and placed on a more economical basis, which would benefit this new company and ultimately return these benefits to its shareholders. Apart from these considerations such a company would attract business from all parts of the world, for surely if the Swiss can do it with such marked success why not the British? It certainly would put an end to the reinsurance difficulties of war. There would be no more frozen balances and deposits locked up in foreign capitals and were such a company in existence today many a British fire manager would sleep sounder tonight."

This letter to the publishers intrigued them and they persuaded the "Veteran" to add to his comments and from these we get some more very interesting sidelights on the way reinsurance is conducted on the other side. He speaks first about the quarterly accounting system:

### Faith in Integrity of Each Other Is Essential

"The position as regards the exchange of treaties, especially between foreign countries and ourselves is equally unsound. Faith in the integrity of a company with whom one is transacting business is essential and if this faith is abused dry rot sets in.

"The present system of exchange of treaties whereby one receives quarterly accounts, very much belated, accompanied by a note asking for confirmation, which is done without examination, is very unsatisfactory, for under the existing system examination is practically impossible."

Then he adds, "In what other branch of business would large sums of money pass without accountants verification? Faith, we are told can remove mountains; it certainly can remove large sums of money in the reinsurance world." Commenting upon the fact that often these quarterly accounts are six months behind he says, "One could wish that the American system prevailed here and agents had to settle within 30 days." Wonder where he got that idea? American companies would like it, too!

### Unholy Trinity of Fear, Jealousy and Competition

Referring then to the fact that "an unholy trinity of fear, jeolousy and competition have a stranglehold on the insurance world today" he mentions its influences upon the direct company and the reinsurer:

"Now the ceding company has many ways of recouping itself when taking a fire risk at an unprofitable rate. It may be that the client has placed with it other business than fire, perhaps very profitable business in which the fire reinsurer does not share. It must also be remembered that none of the cream of the business is ever passed on."

Then he speaks of the right of a reinsurance company to investigate the ceding company's books and his experiences:

### Took Umbrage at Request for Inspection

"The writer has had some practical experience in reinsurance treaties and knows that as far as foreign treaties are concerned, fraud, wilful or to be charitable accidental (if there is such a thing), does occur. He has caused several investigations to be made when his suspicions had been aroused, and in nearly every case found (to be charitable again) errors committed and every one to the detriment of the receiving company. There was one company in the Far East whose balances were consistently adverse. When the writer requested that his auditors might inspect their books they indignantly declined, declaring that it was an aspersion on their integrity and they would rather forego the amount owing than submit themselves to such indignity."

He qualifies his comments by the following:

"But the writer must state that with the exception of one company (now defunct) he never found anything of this nature in the case of British offices, though in some cases clerical errors were discovered. Nevertheless there can be no doubt that some of their methods of handing large amounts of undesirable business to their reinsurers, who are not in a position to say nay or yea, is distinctly unfair and accounts for many an adverse quarterly account. One could almost wish that all business could be taken facultatively where the receiving company is in a position to accept or reject, but this is impossible as it would entail not only a greatly increased staff, but would in many cases place the ceding companies in a dangerous position by reason of undigested risks."

### Feel Reinsurers Not Entitled to Good Profit

To keep this article to reasonable lengths we cannot quote much more but he says that "there are no purely reinsurance companies of any size in Britain today, and those that are in existence barely make ends meet" and suggests that tariff companies feel that the reinsurers have no right to make good profits out of them. He then complains that if the reinsurer makes money for two or three years the commission is raised and the reinsurer toes the mark or else! If he pays, the chances are that the cycle of good years ends. He seems to feel that treaty results submitted by foreign companies are undependable and would like them guaranteed by a reputable firm of chartered accountants. He adds this statement:

"This writer thinks he has pointed out sufficient facts, and they are not fiction but gained from personal experience, to show that the reinsurance business is in a very unhealthy condition from the point of view of the unhappy reinsurers and needs drastic alteration.

W. J. LANGLER
Vice-president Rossia

The subject has been brought up before by cleverer pens than his, but nothing has been done."

Finally he wants to put the great tariff companies into the reinsurance busines by creating a strong company for their own surplus lines and "to attract good treaties from all parts of the world. They would then be in a position to dictate terms and reform the whole of the business. A competent staff would examine the ceding companies' commitments and distribute heavy risks over a wide area as is done by Lloyds."

After digesting all of the foregoing most of us in the reinsurance business will get the reaction that the United States is a mighty good place in which to do business and will register the hope that on this side at least, reinsurance companies will be allowed to retain their place in the sun and "live and let live" be the governing motto of the insurance business.

## Methods Employed Often Haphazard

(CONTINUED FROM PAGE 6)

much of this business now written by casualty companies and in any case practically no reinsurance is required. As for automobile property damage such reinsurance as there is is generally excess reinsurance to protect against large losses on policy with high limits. Such losses, however, actually occur very rarely and reinsurance against them should be able to be secured for a nominal premium. Property damage other than automobile involves much the same considerations except that there is an additional problem in connection with aggregate liability limits on such risks as construction risks, the rates for which are not on a particularly scientific basis with the result that the reinsurance problems are complicated.

As for liability (personal injury) insurance both automobile and other reinsurance is usually carried for excess limits and many companies secure this protection for a flat percentage of total premiums. Incidentally it is surprising how rarely really large losses arise. On coverages carrying an aggregate limit, such as products liability, reinsurance is not so easy to handle. As in the case of property damage both the rate and the reinsurance situations are not very satisfactory at present. The reinsurance of liability business on an excess basis for a percentage of the gross premiums covers that kind of reinsurance fairly well. However, there would seem to be a field for the development of some form of reinsurance protection against the bunching of large claims: of course this idea if pushed too far would result in reinsuring the companies' loss ratio. Some special kinds of liability cover such as aviation present special problems and require special arrangements. A great deal of such reinsurance is placed with London Lloyds.

### O. D. Problems Complicate Compensation Reinsurance

Workmen's compensation involves the risk of large losses, such as for example caused by the explosion of a factory, and naturally reinsurance has grown up to take care of this. Nearly all compensation reinsurance is on an excess per accident basis. Many of the direct writing companies have formed a pool to take care of such reinsurance: and this is one way of getting around the difficulty of fixing proper premium charge for this excess cover. The rise to prominence of occupational disease problems has complicated compensation reinsurance.

The above remarks have purposely not touched upon the considerations which determine the proper charges to be made for the various kinds of reinsurance. The greater part of casualty business is reinsured on an excess basis and because of the very nature of the casualty insured against it is difficult to fix reinsurance premiums other than by trial and error. Fortunately, the experience and skill of the professional reinsurers has succeeded in making great strides towards satisfactory solution of the problem and various devices such as profit sharing agreements have been developed to enable equitable arrangements to be made. The above remarks on casualty insurance and reinsurance seem to lead to the conclusion that companies are too conservative and reinsure too freely. It is doubtless true that the record shows that without any reinsurance at all most companies would have been better off financially. This does not mean that I believe there should be little or no casualty reinsurance, but I do think the business could well develop rather different methods of reinsuring, more suitable to the real needs.

In any case reinsurance has certain other functions, other than the spreading of risks. It enables business to be handled by insurance companies that otherwise could not be written and this is all for the good of the business. With the aid of reinsurance experiments can often be made for the good of business that otherwise could not be attempted. In many other ways, in the underwriting of business, in the settlement of losses and so on, the experience of reinsurance passed on to the direct writing companies often is the guide in avoiding pitfalls. All those contributions on the part of reinsurance help repay the profit which reinsurance must of necessity be granted.

## Veteran

SUMNER BALLARD
President International and U. S. Manager Skandinavia

## Reinsurance Leader

W. W. GREENE
Vice-president General Reinsurance

# Casualty Reinsurance Banner Year

(CONTINUED FROM PAGE 10)

difficult. There has not been much shifting about. Reinsurers are finding it harder than ever to get direct-writing companies away from their present reinsurance markets.

One source of increased business has been the ever-tightening attitude of some of the mid-western insurance commissioners on the question of London Lloyds reinsurance. Commissioners have been hearing a lot about the inroads of London Lloyds. They have as a result frowned on arrangements which permit the direct-writing company to be in effect merely a front for Lloyds. Several commissioners have found that their laws give them adequate power to correct the situation. During the year just closing several treaties were consummated for no other reason than the insistence of the commissioner in the state of domicile that credit could not be taken for reinsurance with non-admitted reinsurers.

The power of states to prohibit direct writing companies from reinsuring with London Lloyds is very broad and it is not beyond the realm of political possibility that statutes might be enacted to go considerably beyond those which merely prohibit credit for reinsurance with unlicensed reinsurers. The attitude of the insurance commissioners is being watched with much interest in this connection.

### Insist Upon Tangible Assets as Solvency Guarantee

A somewhat similar situation may be the result in connection with banks buying their bond coverages from London Lloyds. Here the pressure is not from the insurance commissioner but from the state banking department. Banks wishing to insure with Lloyds contend that they can get the coverage they want more cheaply than from licensed insurers. The other side of the argument is that coverages which are for the protection of a bank's depositors should be carried with an institution admitted to do business in the state where the bank is located, subject to the jurisdiction of that state's courts, its solvency guaranteed by cash and other tangible assets rather than mere tradition and reputation, no matter how honorable.

Last summer a group of large New York City banks lost a court decision on the right to insure with Lloyds. The banks took an appeal, which is due to be argued shortly. A general clamping down by banking departments on London Lloyds coverages would be distinctly advantageous to casualty and surety reinsurers, since, in the main, the banks patronizing Lloyds are large ones with high limits and large insurance and surety requirements.

A confused situation still exists in connection with taxation of ceded premiums. The court decision in the Connecticut General case has caused a lot of complication and extra work for insurance companies and reinsurers. What everybody would prefer to do is to let the direct-writing company pay the tax on the gross premium and get it over with. Even the troublesome schedule T does not fully take care of the difficulty of pigeon-holing each dollar of premium volume according to the state where it came from. Then, too, state laws are not uniform. In the present unsettled situation there is danger that both the ceding company and the reinsurer will pay a tax on the same premium. Then one of them would have to put in a claim for tax refund and wait a few years to get the matter cleared up.

### Hope That Confusion Will Soon Be Removed

So far only four states have passed laws making it clear that the direct writing company is to pay the entire tax on the gross premium. Reinsurers hope that when legislatures meet in January they will pass laws to make the reinsurance tax status clear.

Safe-driver reward plans have not been in effect long enough to make an appreciable dent in the 1938 reinsurance premiums from automobile liability coverage. Casualty reinsurance executives, however, expect that there will be a definite drop in automobile reinsurance premium volume from this cause during the next 12 months.

Surety bonds in connection with federal government projects are the source of substantial premium volume in the surety reinsurance end and the volume of this type of business is holding up quite well. It now appears that the threatened drop in this business will not come until after 1939.

# How Reinsurance Is Organized

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dependent reinsurance in addition to that at the beginning of this report.

1. Individual underwriters were historically the first reinsurers as early as 1370. At that time and during many centuries portfolio reinsurance was the only form in existence. It was created by ocean marine insurance which originated in Italy on a speculative basis so that a marine insurer who became afraid to keep the risk taken over by him often wanted to cede the complete amount insured to a reinsurer. This reinsurer was a capitalist, who receiving the whole premium or even more, was ready to dare more than the original insurer. It is to be easily understood that such business lacked all rational calculation, and was nothing else than betting. However, the idea of reinsurance is to be found here for the first time. In the sixteenth century individual underwriters, now English, were ready to take over a part of the risk covered by an ocean marine underwriter. For centuries these individual reinsurers worked in complete isolation; the next step was cooperation among them. The London Lloyds Corporation is up to the present time the most important reinsurance organization as far as individual underwriting is concerned. Besides Lloyds of London, reinsurance organizations are of no significance.

2. Reinsurance by mutuals has to be considered as exceptional, for it hardly plays any role.

3. The stock company is by far the most prevalent. Not only were the first modern independent reinsurance companies founded in central Europe in the middle of the nineteenth century stock companies, but almost all other companies which since came into existence (many hundreds of them) were and are stock companies. Therefore it would not be exaggeration to say that the reinsurance stock company was the pioneer and still is the leading form of modern reinsurance organization all over the world. It may be of interest to quote the reason from the prospectus of the first independent reinsurance company, founded in 1843, in Cologne, Rhine; why the founders believed in its success who were doing general reinsurance business and no direct insurance. They were afraid that by keeping the method, up to then exclusively known as reinsurance by dependent foreign companies "that there would be great danger to the insurers in the possibility that the peace among the European states would be threatened."

Reinsurance companies doing exclusively reinsurance business were founded partly by direct insurance companies and partly without their concurrence. In the first case, the direct companies are the dominators of their daughter-companies which may serve exclusively to their parents, or they may do business with any other direct companies.

### Reinsurers Sometimes Found New Direct Companies

Another fact of no less interest is the founding of new direct insurance companies. In such cases the reinsurance companies may be considered the parents, the others, the daughters; it may happen that the parents try to get rich alimentation by the daughters. A further step is to build up sister companies mostly in foreign countries so that retrocession reinsurance of reinsurance among the whole group may be arranged. Besides founding new companies, giant European reinsurance companies have done a lot in reorganizing national and foreign companies which were in trouble. It would be surprising if, for such help, the companies would not have to pay by reinsurance contracts, which first of all are favorable to the savers.

It should not cause astonishment that insurance state supervision did care about reinsurance because of the fact that the financial position of thousands of insurers, and millions of policyholders and beneficiaries, directly or indirectly, were jointly affected. However, it is to be doubted whether all legislatures have recognized sufficiently the leading role of reinsurance in the whole insurance business, and whether they are sufficient experts in reinsurance to do neither too much nor not enough. There is a great variation in dealing with reinsurance among the insurance laws. One of the most remarkable insurance laws at the time of its beginning did not care about reinsurance, later the supervision was extended to it because the state became aware that it had made an error in assuming reinsurance would not need supervision as a contract whose parties are both insurance experts. Without any doubt, effective state supervision has to include reinsurance at least as a momentous part of most direct insurance business administration. On the other hand, one should not believe that state supervision may be a panacea.

### Reinsurance By State Was Product of War

Up to very recently reinsurance by state institutions was negligible. Only in exceptional cases was it found to exist; such as, in Switzerland, in regard to fire reinsurance of the Cantonal Fire Insurance; and as in Czaristic Russia in 1895 which made use of a state managed reinsurance for revalorization of the currency. It took some time before other countries followed; however, there have been quite a number of projects without being realized, i.e., in France. During the world war several states introduced reinsurance in regard to the problematic war-risk in ocean marine insurance; the project to organize a common reinsurance of the Allies in 1917 was not realized. After the world war, we find state reinsurance in Italy, 1923; in Turkey, 1929; in Lettland, 1930; in Ireland, 1936; and in Greece, 1937.

We call mixed organization the most modern and interesting method and it was first initiated in Chile in 1927; e.g., from the outside of a private stock company, in fact an institution whose stock and administration is partly in the hands of the government and partly in the hands of all Chilean private insurance companies. We are told by insurance practitioners (the author from his own knowledge agrees with these people) that in the event, because of any reason, it should be advisable to bring a state in near contact with reinsurance, the Chilean example may be considered an almost ideal combination of the interests of all concerned, private direct insurance companies, policyholders, the state and nation. The Chilean companies, besides the government, are shareholders; a small minority of shares may be bought by the public. The legislatures were very clever in avoiding all extremes, i.e., too far reaching monopoly. There is no real direct monopoly, because each Chilean insurance company may reinsure in each other Chilean direct insurance company and only when such reinsurance is not sufficient does it have to be taken from the mixed organization called Caja. Foreign reinsurance companies do not get any license in Chile, but the Caja, which is centralizing the reinsurance not covered by the Chilean direct companies, is retroceding amounts to foreign companies, which may be considered correct. By such a method Chile protects its own insurance industry and keeps its small capital mostly inside the frontiers, following the advice of the above mentioned prospectus of 1843, the oldest independent reinsurance company on the border of the Rhine River. There you may read: "It is obviously desirable to keep all profitable business in one's own country."

There can not be any doubt as to the desirability of keeping and promoting private initiative in insurance and reinsurance as far as possible. On the other hand, in many countries the problem of how to get money for the ever growing expenses of state and government is becoming more intense. Thus, it may happen that other states will come into the reinsurance business. If that should be the case, then the Chilean solution seems to be the most recommendable.

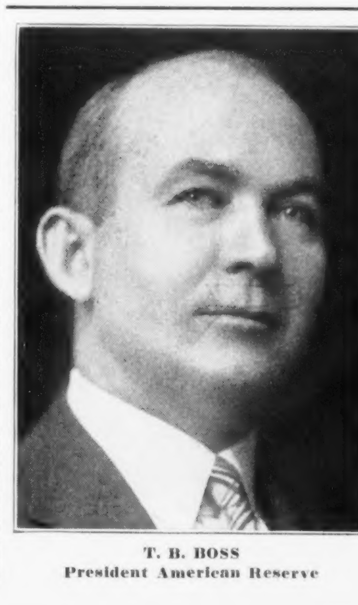
# Reins Club Expands Activity

Reinsurance men are not given to banding together in business organizations but about five years ago a group of the younger production men in fire reinsurance got together and formed the Reins Club for purposes of sociability and relaxation. The club is going strong and this year expanded its activities by holding a spring dance. The club has about 40 members.

Meetings are held the first Tuesday of each month except during the summer. The final meeting of the season, held in June, is an all day outing, including a baseball game, races, horseshoe pitching, and winding up with a banquet. Monthly meetings, formerly held at noon, now begin at 5:30. After business is transacted the members adjourn for dinner and later go en masse to whatever form of entertainment—Madison Square Garden, bowling, night football—the entertainment chairman has decided on.

Jay Hawthorne, North British & Mercantile, was elected president at the recent annual meeting.

# Company Head



T. B. BOSS
President American Reserve

# Fire Reinsurance Prospects Mixed

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thing of a vain hope. Low inventories are no longer the result of hand-to-mouth buying enforced by merchandisers being too straitened to buy in larger quantities. Small inventories and rapid delivery service all along the distribution chain are the new order of business and are likely to remain no matter what degree of prosperity may come.

In the constant effort to increase premium volume, reinsurers have succeeded in increasing the number of their treaties during 1938 but because most of these are with small companies the reinsurers' premium volume is still below what it was for 1937.

The curve of reciprocity arrangements and excess of loss treaties gave, during the year just ending, definite evidence that it had flattened out. If it is not getting any better from the reinsurance companies' point of view, at least it is no worse. This tends to confirm the indications of 1937.

### Considerations Exist That Are Bigger Than the Dollar

While these two manifestations have been thorns in the sides of licensed professional reinsurers, the ties which bind a direct writing company to its reinsurers are in reality strong ones and not lightly broken. The ceding company is inclined to look beyond the mere immediate dollars and cents advantage to be gained by dropping its regular treaty reinsurers and switching to a plan which permits keeping a larger share of premiums.

Those who are not in contact with reinsurance and do not appreciate these almost sentimental ties may wonder why the reciprocity theory does not go to its logical conclusion and make a much bigger dent in the regular reinsurance business than is actually the case. But direct writing companies have a strongly ingrained feeling that orthodox reinsurers have an important role in the business and should not be frozen out.

One fleet, for example, when shown how it could have saved between $2,000,000 and $3,000,000 during the previous five years by switching from its treaty reinsurers to excess of loss coverage, refused to make the shift. Not only did it feel that the next five years might not tell the same story as the previous five but it was strongly influenced by the belief that it was not right to deprive its treaty companies of the opportunity to recover during prosperous years for losses suffered during lean years.

### See John Bull Aiding Lloyds in Emergency

The whole question of excess of loss coverages has been hotly debated. Most regular admitted reinsurers in this country refuse to have any part of them. Some officials here believe that if London underwriters fully realized the concentration of values in congested American cities they would hesitate to assume such large catastrophe liabilities. On the other hand, those fully familiar with London Lloyds' method of operation say that it would take a history-making conflagration in a major American city, a tidal wave in Australia, and a mutiny in India, all occurring at the same time, to put London Lloyds under, so great is the spread of its risks. In addition, even among those who have cause to be most irked at London Lloyds' inroads via the excess cover route, it is conceded that if any such massing of disasters should hit Lloyds, the British government would come to the rescue rather than let the prestige of so important an institution suffer.

How serious it would be for professional reinsurers in this country if all coverage were placed on an excess of loss basis is indicated by an estimate that if all existing treaties were changed from the present usual basis to the excess of loss type the reinsurance carriers would receive approximately 95 percent less income than on the present basis. For approximately one-twentieth of what they now receive they would still be carrying the same maximum potential liability, though of course, the theoretical probability of loss to the reinsuring company would be correspondingly reduced.

It is only with the greatest reluctance that insurers, faced with lowered premium income and consequent higher expense ratios, have diverted business from their regular reinsurers in order to receive back enough business under reciprocal deals to keep the expense ratios in line. Of course, the excellent loss ratios, which were mainly responsible for the decreases in rates and volume, helped a great deal to make such reciprocal arrangement attractive, for surplus business normally produces a loss ratio several points higher than the ceding company's average ratio. Reinsurance companies make up for this by having a correspondingly lower overhead.

The year now ending is the first in which there has been any noticeable effect of the stricter attitude of insurance commissioners on the question of permitting credit to be taken for reinsurance in non-admitted companies. This movement on the part of the commissioners, which is confined mainly to the Middle West, began with the more drastic provisions of the Illinois insurance code sponsored by Insurance Director Palmer of Illinois. This served to bring the situation to the attention of other insurance commissioners in the Middle West. Comparing their own laws with the new Illinois code, they realized that they could handle the non-admitted reinsurer problem with the laws that were already on the statute books.

### Some Direct Writers Have Dropped Lloyds Cover

Already this stricter enforcement has resulted in some direct-writing companies dropping their Lloyds covers and tieing up with licensed reinsurers again. Unfortunately for the admitted reinsurers, the maximum ultimate effect of this move by the commissioners cannot be a very important factor in bringing back the volume of their business to anything like what it was before the days of reciprocity between direct writers and the increased popularity of excess of loss reinsurance.

This is because enforcement of the law which denies credit for reinsurance with non-admitted carriers is necessarily limited in its effect to the smaller companies. The larger companies with bigger retentions are in general in a better position to forego the credit on non-admitted reinsurance as reinsurance is a less important item. But for companies which cannot ignore reinsurance credit, strict application of the laws can only result in a return to the orthodox reinsurance fold.

Another angle of this question is the stricter attitude of these same commissioners toward the 100 percent reinsurance deal, whereby the admitted carrier in effect is merely acting as a front for Lloyds. Even in cases where the reinsurance is not 100 percent but where the retention is so small that the setup is still obviously a way of circumventing the ban on unadmitted reinsurers, the commissioners have taken an equally firm stand.

There are several types of risk situations which make reinsurance officials uneasy. The most important is the surplus cotton crop amounting to more than 11,000,000 bales. On most of this surplus the federal government has lent more than the cotton is worth. The total surplus is equivalent to about two years' supply for domestic consumption.

There is considerable debate as to whether this situation involves a measurable increase in moral hazard but there is no one who feels comfortable about the fact that warehouses normally holding 1,000 bales of cotton are now jammed with perhaps 10,000 bales of this highly combustible commodity. A cotton warehouse fire, in the event of a total loss, would be in the neighborhood of 10 times as costly as it would be if it were not for the surplus crop situation.

### Distillery Loss in Owensboro Hit Reinsurers

There has been a constant string of cotton losses and they have been heavy. More than one direct writing company has reduced its net retention on cotton in warehouses.

Distilleries have also been marked by a series of heavy losses, the worst this year being the Glenmore Distilleries, Inc., plant at Owensboro, Ky. The loss is reported to have been settled for approximately $1,400,000. Including this loss, companies have paid between $6,000,000 and $7,000,000 in whisky warehouse fire claims since the repeal of prohibition. Two other fires were more costly to the underwriters. They paid $2,655,467 in connection with the fire Apr. 28, 1934 in the James E. Pepper plant of Schenley Distillers. The Hiram Walker-Gooderham & Worts fire July 22, 1935 cost the insurers approximately $1,850,000.

Values on liquor warehouses always run high and the typical rack warehouse is fated for total destruction once a fire gains real headway. In this type of structure the casks are stored on racks running from floor to ceiling. The roof is usually the equivalent of several stories above the ground and the absence of floors encourages fires to spread with disastrous rapidity. Because of the insistence of the underwriters, some of these warehouses have been equipped with floors. The best that can be said for these floors is that they are fire-retardant, but they greatly reduce the risk of total loss in a warehouse fire.

As was strikingly evident in the Peoria fire, these warehouses, by reason of their design, lend themselves to building collapse. There was considerable argument as to whether a large share of the Peoria loss was not due to building collapse rather than actual fire, but the companies wound up by paying and would probably have to do so in any similar situation.

Oil fires have been expensive. The Sinclair refinery fire at Wellsville, N. Y., cost about $1,000,000. The spectacular Cities Service refinery blaze at Linden, N. J., ran just under $300,000.

## Less Confusion in Aviaton Reinsurance Field

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ican markets' treaty facilities here and abroad.

Then it becomes necessary to place the remainder of the risks with Lloyds and other London underwriters, on a facultative basis. This is accomplished readily enough among underwriters accustomed to taking a slice of an aviation risk. But on the really large planes it is necessary to go beyond this customary market and do some missionary work among underwriters who do not customarily play around with aviation coverages. The manufacturer's reputation may be excellent, the test pilots may be at the top of their profession, and the plane may be of the latest design, embodying all the safety features that have been thought of in the history of aviation. Nevertheless, it is a new design and things can happen. The underwriter has a sound basis for saying "no, thank you" when the American market's representative suggests that he take a piece of the risk.

However, enough of these marginal underwriters have proved willing to step up and stick their necks out just a little bit so that it has been possible to provide the desired coverages for all the planes so far constructed in this country. Of course, whether these underwriters are satisfied with their deals or turn a sour look on all future aviation insurance proposals, depends entirely on what the future brings in the way of crashes, not only in this country, but abroad. Let one or two bad airline crashes occur anywhere in the world and the London market reacts like a sensitive plant, for, so far, there is not sufficient experience to enable insurance people to take their losses in their stride, knowing that with a correct rate, the law of averages is great and will prevail.